

5-14-1980

Hearing on Senate Resolution No. 35 (Nielsen) - Cal-Vet Loan Funding

Senate Committee on Governmental Organization

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SENATE COMMITTEE
ON
GOVERNMENTAL ORGANIZATION

TRANSCRIPT OF PROCEEDINGS
HEARING
ON
Senate Resolution No. 35 (Nielsen)
Cal-Vet Loan Funding

Room 5007, State Capitol
Sacramento, California 95814

May 14, 1980



MEMBERS OF THE COMMITTEE:

Senator Ralph C. Dills, Chairman
Senator Robert Nimmo, Vice Chairman

Senator Alfred Alquist	Senator Lou Cusanovich
Senator Robert G. Beverly	Senator John Francis Foran
Senator Paul Carpenter	Senator Bill Greene
Senator Milton Marks	

STAFF:

Lindsay W. Miller, Principal Consultant
Terry E. Frost, Assistant Consultant
Brian McMahon, Research Aide
Billie Williams, Committee Secretary
Karen Sullivan, Secretary

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19-2-08

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MEMBERS
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CHAIRMAN
ROBERT NIMMO
VICE CHAIRMAN
ALFRED ALQUIST
ROBERT G. BEVERLY
PAUL CARPENTER
LOU CUSANOVICH
JOHN FRANCIS FORAN
BILL GREENE
MILTON MARKS

California Legislature

SENATE COMMITTEE ON GOVERNMENTAL ORGANIZATION

ROOM 5046, STATE CAPITOL
SACRAMENTO, CALIFORNIA 95814
TELEPHONE: 445-1193

RALPH C. DILLS
CHAIRMAN



June 12, 1980

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PRINCIPAL CONSULTANT
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BRIAN MCMAHON
RESEARCH AIDE
BILLIE J. WILLIAMS
COMMITTEE SECRETARY
KAREN SULLIVAN
SECRETARY

Honorable James R. Mills
Chairman, Senate Rules Committee
Room 5100, State Capitol
Sacramento, California 95814

Dear Senator Mills:

On May 14, 1980, the Senate Committee on Governmental Organization held a hearing on Senate Resolution No. 35 (Nielsen), relating to the Cal-Vet home loan program. I am herewith transmitting to you a copy of the transcript and other relevant materials from that hearing.

At the hearing, a number of Cal-Vets testified as to their personal experiences with the loan program. They generally criticized the long delays in receiving loan funds and charged that department officials had given the public false assurances of loan money being available.

Several department district office managers also testified at the hearing. Their testimony indicated there had been confusion within the department in recent months as to the amount of money available for loans and how soon that amount would be expended.

Due to time limitations, the department director was not able to complete her testimony, and the committee was not able to form a conclusion in this matter at this time. Witnesses were notified that the committee would continue to monitor the problem in the future and might schedule another hearing at a later date.

Sincerely,

RALPH C. DILLS

RCD:kss
Attachment

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INTRODUCTION

A shortage of funds in the Cal-Vet program has caused hardships for a considerable number of veterans during the past six months.

Sponsors of SR 35 charge that a principal cause of the hardship has been a lack of information to individual applicants about possible delays in making funds available to them.

It is charged that the Department of Veterans Affairs knew, or should have known, of the financial shortfall but misrepresented the situation to applicants.

In addition, it is alleged that the department failed to follow recommendations by the Auditor General to improve internal procedures in the area of cash forecasting or to take the steps necessary to resolve other administrative weaknesses.

Due to a number of factors, applications for Cal-Vet home loans have increased substantially in the past year. In 1978, the department received 15, 158 applications, but this figure jumped to a total of 28, 014 applications in 1979.

In recent months, as interest rates for FHA and VA insured home loans rose to 13 percent, and conventional home loan financing reached as high as 17 percent or more, the Cal-Vet interest rate of 5.6 percent became even more of a bargain for qualified veterans.

In the same period, the Legislature sharply increased the number of veterans and homes eligible for Cal-Vet loans. In the 1978 session, SB 1965 (Zenovich) repealed the limit on home values that could be financed by Cal-Vet; and SB 254 (Campbell) more than doubled the pool of qualified veterans by restoring the eligibility of World War II veterans and others who had left military service more than 25 years ago.

Inflation and the values of real estate in California are also reflected in the Cal-Vet loan program. In 1978, the average Cal-Vet loan was \$43,000, but by early 1980 this had increased to \$52,000.

By April 1980, to meet the increased demand for financing, the department had sold \$380 million in bonds from the 1978 \$500 million bond act. After being advised that the market could not absorb more general obligation bonds at this time, the department borrowed \$22 million from the General Fund and for the first time sold \$200 million in revenue bonds to raise additional funds for the program.

INTRODUCTION (continued)

Under the provisions of AB 1963 (Fenton), 1979 session, a new \$750 million veterans bond act will be voted upon by the people on the June 1980 ballot.

In an attempt to resolve the problem, the department has placed all applications received before December 10, 1979, in a top priority category. Approximately 3,600 of these applications remain unfunded but every effort is being made to process them as speedily as possible. All applicants who applied after December 10, 1979, have been notified that their funding is uncertain and dependent upon funds being available.

It is estimated that the total number of veterans of U.S. military service in California approximates 3.3 million. Of this number, approximately 1.1 million are defined as Cal-Vets and are eligible for the home loan program.

1 SACRAMENTO, CALIFORNIA, WEDNESDAY, MAY 14, 1980, 9:40 A.M.

2
3 CHAIRMAN DILLS: My report is, as I indicated
4 earlier, that there will be other members of the Committee
5 here, and a quorum will be present eventually. Each of these
6 members has bills in other committees, and hearings in other
7 committees, so that it will be advisable for us to proceed as
8 a Subcommittee at this time, and eventually, there will be a
9 full Committee here, or a quorum of the Committee, which would
10 be five members.

11 I'm Senator Ralph Dills, the Chairman of the
12 Committee on Governmental Organization. I'm happy to welcome
13 you here today, on this occasion, which is to hear a Senate
14 Resolution, No. 35, introduced by Senator Nielsen, and
15 relating to the Cal-Vet loan funding.

16 The resolution requested the Senate Rules Committee
17 to assign the subject of the Cal-Vet farm and home loan
18 program, and the administration of that program, by the
19 Department of Veterans Affairs, to an appropriate committee
20 for study. We have received that request, and the study will
21 begin with this hearing.

22 At the conclusion of the hearing today, a transcript
23 of the testimony will be made available as soon as possible,
24 and a report of the hearing, with any recommendations the
25 committee may care to adopt will be published in the Senate
26 Journal.

27 In advance, I'd like to thank all of the witnesses
28 who have taken the time to attend this hearing today. I can

1 assure you that your testimony will be most valuable to the
2 committee.

3 Our first witness this morning will be the Secretary
4 of the State and Consumer Services Agency, Alice Lytle. I
5 understand that Secretary Lytle has to leave almost immediately
6 for Oakland, and therefore, has requested to appear at this
7 time.

8 SENATOR NIELSEN: Mr. Chairman, I would defer to
9 Ms. Lytle, but I would like to make kind of an opening
10 statement after she has completed her testimony, so she can
11 leave.

12 CHAIRMAN DILLS: Yes, we'll hear your opening state-
13 ment at that time. There being no objection, we will hear
14 Alice Lytle at this time, and I'd like to request that all
15 parties who will testify, please use the chair, or at least
16 draw the microphones over to you, because in addition to the
17 public address system which we're using, we are recording.

18 So, if you will be kind enough to use the chair, and
19 the microphones that are at the chair where Ms. Lytle is now
20 seated, keep your voices up so that we may hear you, not only
21 on our P.A. system, but also that it may be recorded for the
22 record. Thank you very much, and you may proceed at this time.

23 MS. LYTLE: Thank you, Mr. Chairman, members of the
24 Committee. I am Alice Lytle, Secretary of State and Consumer
25 Services. I have been in this position since April of 1979.
26 I very much appreciate the opportunity to testify before this
27 committee. Both the Governor's Office, and the State and
28 Consumer Services Agency welcome an objective legislative

1 investigation into the circumstances surrounding the problems
2 experienced by California veterans, and the Department of
3 Veterans Affairs.

4 My hope is that the forces, economic, political, and
5 administrative, operating to produce the situation to which
6 this committee is addressing itself, can be precisely identi-
7 fied so that appropriate remedial measures can be designed and
8 implemented. It is critical, however, that this process take
9 place within an historical and political frame of reference
10 that provides a useful perspective to the committee's
11 deliberations.

12 Although there have been ebbs and flows and the
13 infusion of money into the department for its farm and home
14 loan program, the department has never faced the cash flow
15 problems it now faces. Historically, the people of the State
16 of California have voted in favor of bond issues, veteran bond
17 issues; but a close scrutiny will reveal they have done so
18 by increasingly narrower margins.

19 For years, the California bond has enjoyed a favored
20 rating among the states of the nation. The rating is high
21 presently, but not as high as it once was, thus affecting the
22 interest rate at which bonds can be sold. By law, as you know,
23 general obligation bonds have a maximum rate of seven percent.
24 If we cannot sell them at that rate, or below, they cannot be
25 sold without a law change.

26 Revenue bonds, which the state has recently sold,
27 for the first time in its history, which the State Department
28 of Veterans Affairs has recently sold for the first time in

1 its history, have no interest rate ceiling. However, to the
2 extent that the dynamics of the bond market, and political
3 forces at the state and federal level force sale at a high
4 interest rate, the department increases its debt service
5 obligations.

6 The dynamics of these resource and demand elements
7 of the department's program must be carefully discussed and
8 understood before any action is recommended or taken by this
9 committee.

10 In conclusion, I would like to address myself to the
11 questions raised with respect to the alleged failure on the
12 part of the department to alert the veteran population to the
13 possibility of delays in funding. You will receive and
14 evaluate testimony from department staff, and management,
15 describing the information available to the department
16 regarding funding projections, scheduled bond sales, and
17 pending federal legislation.

18 You will further receive information on steps being
19 planned by management and staff of the department to create a
20 management information system, containing a number of elements.
21 These include mechanisms for monitoring the availability of
22 bond sale proceeds, receipts and expenditures from past loans,
23 including loan payments by veterans, and payments of interest
24 to bond holders, volume of applications, and the rate at which
25 veterans make pre-payments, rather than paying of their loans
26 in scheduled payments.

27 No information system designed by the department can
28 make cash projections more than estimates, but clearly, the

1 department is willing to set up the best system possible. Such
2 a system would enable the department to provide the most
3 current information possible to veteran purchasers. The
4 system must, however, be supplemented by procedures for
5 informing veterans, so that they are familiar with every stage
6 in the application process.

7 Most particularly, veterans must know when a loan
8 has been approved, so that they know at what stage in the
9 process the department has made a loan commitment to them.
10 Communications between the regional and district offices, and
11 between the department, the agency, finance, and the treasurer's
12 office, must be smooth and efficient so that projections,
13 policies and procedures are known and consistently followed.

14 In short, there is room for improvement, as there
15 is with most entities in state government. However, the
16 severity and unexpectedness of some of the economic and
17 political forces operating on the department must be taken
18 into account, as well as the fact that the department started
19 in 1978 to anticipate and plan for the cash flow problems that
20 they have now encountered.

21 You have my pledge that these efforts will continue.
22 Thank you very much.

23 CHAIRMAN DILLS: Thank you. Are there any questions
24 of members of the committee?

25 SENATOR CUSANOVICH: I'd like to ask one, Mr.
26 Chairman.

27 CHAIRMAN DILLS: Senator Cusanovich.

28 SENATOR CUSANOVICH: Ms. Lytle, number one, how far

1 back are we on fulfilling the wishes of those that already
2 have their loans -- their loans have been accepted? I
3 understand that we're quite a bit in arrears.

4 MS. LYTLE: The department identified a date beyond
5 which they could not secure funding for loan applications
6 presently in the office. That date is December 7th. Applica-
7 tions filed since December 7th, have been left unfunded,
8 pending the passage of Proposition 2, which is on the June,
9 1980 ballot. Applications filed prior to December 7th, have
10 been processed as bond sales of already authorized bond issues,
11 have been scheduled and sold.

12 SENATOR CUSANOVICH: And the last \$125 million we
13 just sold at what, seven percent? Didn't Treasurer Unruh
14 just sell some bonds?

15 MS. LYTLE: Yes, he did.

16 SENATOR CUSANOVICH: What was the percent on those?

17 MS. LYTLE: I don't know, the staff will be able
18 to answer those technical questions.

19 SENATOR CUSANOVICH: Okay.

20 CHAIRMAN DILLS: Further questions? Questions from
21 members of the staff? Being none, then, thank you very much
22 for your testimony and --

23 MS. LYTLE: You are very welcome.

24 CHAIRMAN DILLS: -- you have indicated that there
25 will be other -- there will be staff members present to answer
26 further detailed questions during the day?

27 MS. LYTLE: That's right.

28 CHAIRMAN DILLS: Thank you very much, you're excused

1 at this time.

2 Members of the committee, a quorum is now present.
3 We held a hearing at the beginning of the committee meeting
4 this morning on AB 2846, Filante, which is an urgency matter,
5 and the subcommittee recommended by a vote of 2-0, that the
6 bill be given a do pass recommendation, and then to finance
7 committee. There was no opposition to the measure, and it is
8 an urgency matter, and if you are sufficiently familiar with
9 the measure at this time, why we shall lift the call and
10 proceed to a vote.

11 SENATOR ALQUIST: I move approval of the subcommittee
12 report.

13 CHAIRMAN DILLS: Senator Alquist moves approval of
14 the subcommittee report. Are you ready for the question?
15 If there's no objection, then the secretary will call the roll
16 on the passage of the measure.

17 MS. WILLIAMS: Alquist?

18 SENATOR ALQUIST: Aye.

19 MS. WILLIAMS: Beverly?

20 SENATOR BEVERLY: Aye.

21 MS. WILLIAMS: Carpenter?

22 SENATOR CARPENTER: Aye.

23 MS. WILLIAMS: Cusanovich?

24 SENATOR CUSANOVICH: Aye.

25 MS. WILLIAMS: Rains, Marks, Nimmo, Dills?

26 CHAIRMAN DILLS: Aye. Aye's five; no's none, the
27 bill is out to finance.

28 Senator Nielsen, it was your resolution that is

1 brought to this hearing today, and it's my understanding that
2 you desire to make a statement at this time, is that correct?

3 SENATOR NIELSEN: Mr. Chairman, members of the
4 committee, I appreciate your indulgence in allowing this
5 testimony. The issue of the Cal-Vet loan has been before us
6 for several months. Members of the Legislature became aware
7 when we began being inundated with complaints from our veteran
8 constituents who were having trouble with their loans.

9 We have begun looking into this thing, and it has
10 been my opinion that there are, indeed, some deficiencies.
11 We all understand and appreciate the external factors of the
12 market, and the economy that have influenced this; but I think
13 that there are also, possibly, some internal difficulties
14 that have contributed, and they would be here, and with us,
15 whether or not those external factors were present.

16 Our purpose is to try to investigate. We have today
17 with us many veterans who have been aggrieved by the loan
18 program. We have people who are a part of staff, and directors
19 who have some influence on this program. They are here to
20 shed light on, hopefully, some of the deficiencies.

21 I am not of the opinion that the shortage of funds
22 is the problem. I think that the problem is internal, and we
23 need to look and find what those internal weaknesses are, and
24 then from that, improve the system. I am greatly concerned,
25 at this point in time, that we correct any deficiencies that
26 we might view, forthwith, because if we do not, if problems
27 are still occurring within the department, that fosters an
28 attitude, and the lack of trust and faith of individuals and

1 organizations who might seek to secure bonds. It fosters
2 dissatisfaction of the voters of the State of California who
3 have consistently supported the bonds.

4 I think we must improve the operation, and the
5 equity, and begin to serve the veterans in a better way. I am
6 hopeful that the testimony presented here today will in a very
7 positive way, shed light on the ways in which we can improve
8 the Cal-Vet loan program. We have many witnesses, and they have
9 been counseled to be very brief and expeditious in their
10 testimony.

11 CHAIRMAN DILLS: Thank you, Senator Nielsen, and
12 may I add my counsel and admonition to the witnesses to be
13 as brief as possible so that everyone would have his or her
14 opportunity to speak. Also, to the extent that you can do
15 that, and not be particularly repetitive, unless repetition
16 is a part -- brings out what is a real problem, why that
17 would be helpful, too, for the hearing.

18 We do have a long agenda, a considerable number of
19 persons who desire to be heard, and with that in mind, may
20 we call upon the first person here. My list indicates that
21 it's Keith Denton. Are you Keith Denton, all right, you may
22 proceed.

23 MR. DILLON: No, sir. My name is Harry Dillon, I
24 live in Vallejo.

25 CHAIRMAN DILLS: Harry Dillon, thank you.

26 MR. DILLON: I applied in January to the Concord
27 office for a Cal-Vet loan.

28 CHAIRMAN DILLS: What year, sir?

1 MR. DILLON: 1980.

2 CHAIRMAN DILLS: Thank you.

3 MR. DILLON: I was told by the woman at the desk,
4 they were out of money, but the bonds had been sold, and it
5 was only a matter of formality of releasing the money. When
6 I sold my house, I had five days to back out of the sale, in
7 other words, to cancel the sale, in case there was no money.
8 On her assurance that there was going to be money in 60 days,
9 she said, at the outside, probably less, in her words, I went
10 ahead and bought another house, to get a lower house payment.
11 It was even a little smaller house than what I was selling.

12 As it is now, I'm paying \$642 a month, interest only,
13 where my previous payment was \$314, principal, interest, taxes
14 and everything. My out-of-pocket expenses on this, just going
15 by this woman's word, are going to be in the neighborhood of
16 \$10,000. I feel that the Cal-Vet program has wronged me. I
17 put my time in the Navy, and you know, in Vietnam, and I feel
18 that the Cal-Vet program has done me a great injustice, both
19 financially and otherwise, and I'm very nervous.

20 CHAIRMAN DILLS: All right, any questions of this
21 witness? Thank you, Mr. Dillon. The next witness please.

22 MR. IUS: My name is Herman Ius out of Clearlake
23 Highlands, and I approached the Cal-Vet in March of 1979 to
24 get a loan from there to build a house up there. I got the
25 approval in July, the 18th, and I got a loan of \$55,000 from
26 the Bank of America, July 23rd. I built that house myself,
27 and I -- at no time did they say that they were out of money,
28 or anything.

1 January -- my loan from the bank was up January 23rd
2 of 1980. The manager called the office the 22nd and told them
3 that I would have my money in two or three weeks. I haven't
4 got any money. The first interest cost me \$2,800. I got a
5 30-day extension, and I got another 90-day extension, which is
6 a total of 120 days, and it's costing me \$3,200. Plus, I had
7 to get a loan -- a mortgage on my house, insurance on my house,
8 fire on my house, and I had to get a flood insurance for the
9 Cal-Vet.

10 I had to get three primary reports, up to date, 30
11 days, that's \$75. Now I have to turn around and sell my house,
12 lose my house that I built myself. Thank you.

13 CHAIRMAN DILLS: Just a moment, sir, there may be a
14 question of members of the committee.

15 SENATOR CUSANOVICH: I think I have one. Both Mr.
16 Dillon and Mr. Ius said that woman told them. Is this -- are
17 you talking about the head of the department?

18 MR. IUS: The head of the department, yes, sir.

19 SENATOR CUSANOVICH: Okay, thank you.

20 CHAIRMAN DILLS: And by the head of the department,
21 you mean who?

22 MR. IUS: Down at Cal-Vet Santa Rosa, I talked to
23 the girls up there, and I talked to Mr. Osbourne, and they told
24 me -- I got my loan escrow number, I got my payments, and
25 everything else, and I had to get one more item, which was a
26 flood insurance form, initial -- sign a copy and send it back
27 to them, and pay my '79 and '80 property taxes, and when I
28 walked into the office to give it to them, that was my final

1 thing, I was all ready to give them my loan, then they told
2 me, and that was on February 10th, that there was no money
3 available at all.

4 CHAIRMAN DILLS: Do you have the name of the lady?

5 MR. IUS: I talked to a lady named Pat, up there,
6 I talked to Mr. Osbourne up there at the Santa Rosa branch,
7 and I talked to women in his office personally. He told me
8 there was no money. But at any time, in the Bank of America,
9 they did not say that there was no money available at all,
10 they said that in two or three weeks I'd get my money. Plus,
11 they were 45 days behind to appraise my house, which I asked
12 them December 1st, and they didn't come out until after
13 January, the middle part of January, the 20th, I believe it
14 was.

15 Oh, yes, this one here, this one here is from the
16 Bank of America, the branch -- Norma Koch, and late in
17 January, which was the 22nd of January, she was the one that
18 called the office up there in Santa Rosa to inform them that
19 the funds will be available to me, and there's no problem or
20 anything else. That I'll have my money, and they'll put the
21 money in escrow for me to pay of this \$55,000 loan. Now I
22 have to turn around and sell that house.

23 CHAIRMAN DILLS: Yes, sir.

24 MR. ABRUNZO: Excuse me, I apologize. You have a
25 copy of that letter before you, as do each of the members of
26 the committee.

27 CHAIRMAN DILLS: Thank you. Yes, we do have a copy
28 of the letter dated May 8, 1980, over the signature of Norma

1 Koch, Manager. If the reporter desires to get a copy for the
2 record, she has one. Thank you.

3 All right, anything further, sir?

4 MR. IUS: No, sir.

5 CHAIRMAN DILLS: All right. Any questions of the
6 witness? The next witness then, please.

7 MR. LINER: Good morning ladies and gentlemen of
8 this committee, and thank you very much for hearing me. My
9 name is Steven Liner, from Santa Rosa, California. My wife
10 and I had heard rumors previous to our house, that since June
11 of 1979, Cal-Vet had no money. Four times prior to the week
12 that we made an offer on our new house, my wife called the
13 local Cal-Vet office, and talked to various people there, and
14 was told that they did, in fact, have funds.

15 The reason she kept calling earlier, was because
16 people she worked with, and other friends kept telling us, no,
17 to their knowledge, Cal-Vet did not have money, but every time
18 we would call the local office, they would inform us, absolutely
19 they did, there was no problem. We made the offer on our new
20 house at 3720 View Court, a Hillview Manor subdivision on
21 November 10th, 1979.

22 We put \$1,000 down payment on it, which I had to
23 borrow. We put our house on the market later in November,
24 and continued listing it through the Thanksgiving and
25 Christmas holiday season, with no lookers whatsoever.
26 Finally, we got an offer, later in the year, even though
27 through this bad winter, we had a lot of standing water on our
28 property, and we had to take a considerable cut in the price

1 of our house.

2 We got the offer January 9th, 1980. The close of
3 escrow was to be Friday, February 22nd, 1980. March 10th of
4 1980, the escrow on the new house was supposed to close, so
5 there was going to be a time gap between the two houses. We
6 had arranged with the new owner of our residence, either we
7 could rent back, or possibly, we could rent from the developer
8 the new house that we were to move into.

9 So far, at that point, Cal-Vet had told us that this
10 was going to take four to five months and we were moving on
11 schedule at that time. We went to the trouble of hand carrying
12 all of our job verifications, and deposit verifications to
13 expedite these matters. I heard, February 19th, on a Tuesday,
14 after a three-day weekend, that the previous Friday a local
15 television news station had broken a program, stating that a
16 local Cal-Vet had lost money trying to buy a new house.

17 Our escrow was supposed to close that Friday, and
18 I immediately called my wife, who in turn called the local
19 Cal-Vet office. The local Cal-Vet office, as a matter of
20 fact, Mr. Jack Osbourne, stated that there were no funds at
21 that time. They knew that there were no funds at that time,
22 but evidently, their orders had been from Sacramento to tell
23 all of the Cal-Veterans that there were, in fact, funds.

24 So, at that point, we could just not let our escrow
25 close, when everything started to fall apart on us. We tried--
26 after the 19th, we had approximately 24 hours to sign the
27 final papers on our house. We tried, during that period, to
28 get interim financing by means of a swing loan that was running

1 18 percent interest, and seven to eight points, or approxi-
2 mately \$4,000 extra closing costs on a \$55,000 loan. But the
3 swing loan didn't make any difference, because we couldn't
4 qualify anyway.

5 We also tried conventional financing at that time,
6 which was 13 and a quarter percent, \$2,000 extra on our new
7 loan, \$500 to \$600 to convert the new loans, and then another
8 \$500 to \$600 closing costs when the Cal-Vet finally would come
9 through, and my house payment would have increased to \$750 a
10 month principal and interest only.

11 At that point, the developer could not wait any
12 longer for Cal-Vet funds, and the local office was then
13 telling us September, possibly, of 1980 we may get funds. So,
14 we had to stop the entire escrow, and close all of our -- stop
15 all of our deals, and it was done.

16 February 23rd, 1980, we received a loan commitment
17 from Cal-Vet administration, but on the commitment, it was
18 stamped in several places that this was really not a commitment,
19 because it was subject to available funds. Cal-Vet also seemed
20 to think that this letter would carry interim financing for us.
21 We called several banks with this, and literally got laughed
22 at by the banks.

23 May 5th of 1980, my wife heard that the 3720 View
24 Court house was still available and had not sold. Curious
25 as to where we were on the Cal-Vet list, we called and were
26 told that our position could be funded within three weeks.
27 May 7th, we went into negotiations --

28 CHAIRMAN DILLS: Did you make that call?

1 MR. LINER: Sir?

2 CHAIRMAN DILLS: Did you make that call, or did your
3 wife?

4 MR. LINER: My wife did.

5 CHAIRMAN DILLS: And do you know to whom that call
6 was directed, and who responded?

7 MR. LINER: No, I don't. It was one of the girls
8 in the local Santa Rosa Cal-Vet office.

9 May 7th, 1980, we went into new negotiations with
10 the developer, on the house, which had now appreciated in
11 price \$6,000 was what they were asking, from what it was a
12 couple of months previous. May 9th, we were trying to get
13 the price down the best we could, and May 9th, we were
14 informed by the developer that a higher bid had come in, and
15 we lost the house for the second time.

16 To summarize this, the house deal has taken us six
17 months of time and anguish, basically. We were fortunate to
18 back out of our deal, and our actual money loss was very
19 minimal, other than the termite report, and just running
20 around with gasoline. We feel we did everything within our
21 power, diligently, to obtain a loan, and that although it is
22 not Cal-Vet's policy to grant substitutions, it is also, I
23 assume, not their policy to renege on their veterans.

24 The only way we can be compensated by Cal-Vet is
25 to be granted a substitution, and have the money guaranteed,
26 one week's use, to go through this nightmare again. I thank
27 you very much for your time.

28 CHAIRMAN DILLS: Questions? Thank you, Mr. Liner.

1 Next witness please.

2 MR. DENTON: Well, I think you can understand we're
3 all a little bit nervous here, but I'm Keith Denton from
4 Redding, California, and I'm a World War II veteran. I have
5 all the documents that we went through with Cal-Vet and all
6 this, but I think they did an awful -- it was awful dishonest
7 on their part, because nothing came true, and we tried to
8 fulfill in every way what we were supposed to do, and nothing
9 ever was done.

10 We had a loan in November of '78, and our house was
11 built and completed in November of '79, and we, to this day,
12 don't know why it was never processed. So, we, in turn, had
13 to sell our house, or we'd have lost it, one or the other, on
14 this. So, that's my only comment on this deal.

15 CHAIRMAN DILLS: Thank you, Mr. Denton. In what
16 area do you reside?

17 MR. DENTON: In Redding, California.

18 CHAIRMAN DILLS: Redding?

19 MR. DENTON: Yes.

20 CHAIRMAN DILLS: Thank you.

21 MR. DENTON: I thank you.

22 CHAIRMAN DILLS: Any questions of Mr. Denton?

23 SENATOR CUSANOVICH: Did you talk to any one
24 principal of the department?

25 MR. DENTON: We dealt with Mr. Varnum out of the
26 Redding office. We tried calling Sacramento. We never got
27 not responses nowhere, and finally, these gentlemen here, the
28 same gentlemen came to our home, on Channel 7, out of San

1 Francisco, and we was the ones that was on Channel 7. But we
2 had tried every way, and now the only way I understand that
3 I'll even qualify for a loan again is to go ahead and reapply,
4 and as a World War II veteran, I would go to the bottom of the
5 list, and there's no way that I could ever -- I've never had
6 one, and I'll probably never get one.

7 CHAIRMAN DILLS: Again, our thanks. We appreciate
8 your testimony.

9 MR. DENTON: I beg your pardon.

10 CHAIRMAN DILLS: We appreciate your testimony. The
11 next witness please. We appreciate that also, this may well
12 be the first opportunity, or occasion that any of you have
13 had to appear before a committee of the Legislature, and
14 we also understand that you can be a little bit nervous, but
15 we do know that, and you don't have to be nervous, because
16 we're here to get the facts, and nobody knows them better than
17 you do, so just lay them on us.

18 MR. DILLARD: Thank you. My name is Bill Dillard
19 from Benicia, California. My local office is the Concord
20 Cal-Vet office. The person I primarily dealt with there was
21 Mr. Allen, who I understand is in charge of the office.

22 Briefly, our story is, the second week in September
23 of '79, we made application for a Cal-Vet loan. On November
24 29th, we received an approval letter, which I believe the P-14
25 is the number that the Cal-Vet office uses. At that time, we
26 were told that there was money available, and that we would be
27 funded, and as soon as the completion of our house -- our new
28 home was completed, to call, they would have an inspection, and

1 we would be funded immediately.

2 On December 6th, we were ready to close escrow on
3 our old home. I again called the Cal-Vet office in Concord,
4 and asked them, before I sold my home, I wanted to make sure
5 there was going to be money available, because of the rumors
6 that were going around, that possibly there would be a shortage
7 of funds.

8 The Cal-Vet office said, yes, there would be money
9 available. Mr. Dillard, don't call us any more, until your
10 house is done, and at that time, we will inspect your house
11 and give your money to you. In January, towards the end, I
12 called again just to be persistent, and was told the same type
13 of story from them.

14 On February 29th, our home was completed, went in
15 and told them we wanted an inspection for our new home. They
16 said there would be somewhat of a delay, three weeks, something
17 about a priority due to an earthquake situation. I jumped up
18 and down a little bit, got the inspection that week, and at
19 the time they came back from the inspection, it was on a
20 Friday, they said, by the way, Mr. Dillard, we don't have any
21 money for you.

22 After I got back up, then I said, when will you
23 have money? We don't know, but there's money -- you'll be
24 funded, just stay with us, and you will get your money. On
25 March 7th was when the house was inspected, and we were told
26 by our developer at that time, when he found out that there
27 was a shortage of funds, it was going to be a considerable
28 period of time before we received any funds, that we would

1 have to seek interim financing, and that he would not hold the
2 house for us, it was a very popular model, and he could sell
3 it readily.

4 Through persistent phone calls, and contact with the
5 Concord office, and Sacramento office, we were able to put the
6 contractor off, and the developer off for a couple of weeks,
7 because that was the period of time we were told that probably
8 our money would be coming in. This was the first part of March.

9 This went all the way through March on a day-by-day
10 week-by-week basis. You are going to be funded, you are going
11 to be funded. Finally, I was told on two different occasions,
12 by the developer, I had 72 hours to seek financing. I was
13 able to qualify for a VA loan, which was amazing, because I
14 didn't see -- at \$55,000 at 14 percent how I could qualify,
15 but I did.

16 My closing costs were going to be in excess of
17 \$2,500, plus \$500 title fees, et cetera, to somewhere,
18 approximately around \$3,000. I've been renting all this time,
19 because we already sold our house and moved out. It probably
20 cost me in excess of \$1,000 to \$1,500 in rent. The last week
21 in March -- excuse me. The last week in April, finally, we
22 got a letter from the escrow office in our area saying that
23 we had -- the money was available, come down and sign for it.

24 I, fortunately, was able to put off the developer,
25 and not sign the interim financing with the VA, and we were
26 able to get our loan. I feel that, fortunately, I'm one of
27 the more fortunate ones in this mess that we did eventually
28 get our money. But I felt I should come up here and testify

1 because of the heartache and sweat that we went through to get
2 this loan. The unnecessary calls to Sacramento, to the Concord
3 office, the district office not knowing what Sacramento is
4 doing, Sacramento telling you to contact your district office,
5 the district office saying, don't bother us, we don't know,
6 and it's a big round circle from there.

7 CHAIRMAN DILLS: Senator Marks.

8 SENATOR MARKS: You say that you were informed that
9 the loan had been approved? I think you said in the early
10 part of your testimony, you were informed by somebody that the
11 loan had been approved.

12 MR. DILLARD: Our application for a Cal-Vet loan?
13 We were told by Mr. Allen in the Concord office that we would
14 be funded. He couldn't give me a specific date, but he said,
15 as soon as your house is completed, we inspect it, you will
16 be funded. It's a matter of a week, or so, he said, after the
17 house is inspected.

18 SENATOR MARKS: And is he the head of the office?

19 MR. DILLARD: Yes, sir.

20 SENATOR MARKS: Did you ever receive any written
21 communication from him, indicating that your house would be
22 funded, the loan would be granted?

23 MR. DILLARD: Nothing in writing, they would not
24 give anything in writing. I requested something in writing
25 from them on two occasions, and they said, we don't do that.
26 All we can tell you is we know the money is available, that
27 you will be funded.

28 SENATOR MARKS: How many times did they tell you that?

1 MR. DILLARD: No less than three. I called
2 Sacramento, I don't -- I tried to get a hold of Virginia Mae
3 Days, I don't believe I spoke directly to her. At one time,
4 we were told by the Sacramento office that we would be funded,
5 but again, they couldn't tell us the date that we would be
6 funded.

7 SENATOR MARKS: He told you specifically that your
8 house would be funded, and not that he thought that it would
9 be funded?

10 MR. DILLARD: Well, he stated this, he said it would
11 be funded, that he couldn't tell me the date, but that we
12 would get our money, and it would be soon.

13 Thank you.

14 CHAIRMAN DILLS: Thank you, Mr. Dillard. The next
15 witness please.

16 MR. ALLEN MEEKER: My name is Allen Meeker, and I'm
17 the veteran involved; and this is my brother, he's a real
18 estate broker.

19 CHAIRMAN DILLS: Could you keep your voice up, it's
20 going to be difficult to hear you.

21 MR. ALLEN MEEKER: Okay. Two years ago last month
22 I first applied to Cal-Vet for a loan on a house in Elk Grove.
23 At that time, you know, everything seemed to be going good. I
24 was told throughout the process, by the Cal-Vet people,
25 Mr. Eid, specifically, at the South Sacramento
26 office, that everything was progressing normally.

27 We had a problem, a minor problem that we thought,
28 at the time, with a lot description, that apparently Cal-Vet

1 was not satisfied with. This went on for about 14 months.
2 We were going back and forth, continually getting different
3 responses from Cal-Vet. Finally, the result was, on the
4 first application, Cal-Vet pulled the package back from
5 escrow, and in fact, closed the escrow on me.

6 A couple of weeks later, we had all of the lot split
7 problems solved, went back in, and I was never advised that
8 the package was pulled, and the escrow was closed. We went
9 back in, and I went down to the --

10 CHAIRMAN DILLS: At what time was that? When you
11 did learn it, when was it pulled?

12 MR. ALLEN MEEKER: Okay. We first applied in
13 March of '78. In June of '79, everything was done, I went
14 down to the title company to sign the final papers, and at that
15 time, the title company said that they didn't have the package,
16 it had been called back by Cal-Vet, and we'd have to just, you
17 know, go down and see if we could reinitialize it.

18 I went down to the south area office, and at that
19 time, Mr. Eid advised that there was no way that they could
20 reinitialize that package. It had been closed, and everything
21 was closed out, that the easiest, quickest, and best way would
22 be just to start a new application. They already had all the
23 paperwork, lot descriptions, termite, verification of
24 employment, the whole myriad, that it should just be a matter
25 of a month or so.

26 Just reapply, and they'll reverify employment, update
27 the credit check, and we'll close it. That was in June of '79.
28 We're almost a year later, and I'm still trying to get it

1 closed. I've been -- the major complaint, I had no problem,
2 of course, with the current situation, except that Cal-Vet's
3 forecasting, I think, was terrible on their financial problems.
4 But the problem I have is the ineptness of the Cal-Vet people,
5 from the bottom up.

6 I think from Virginia Days on down, the people I've
7 been involved with, generally have no idea of what's happening,
8 no idea of what's going to happen. Some comments I've gotten
9 from the office, and the people I've talked to, are contra-
10 dictory, inaccurate. One specific example was at a meeting
11 we had with Virginia Days, her comment to me was, once -- you
12 know, the only time we close an escrow, and have to start the
13 whole thing over again, is if the property changes.

14 We're talking about the same property for over two
15 years. Apparently, nothing can be done. We have policies
16 stated by Virginia Days, we have the implementation by other
17 people, contradictory to that. You know, it's bewildering
18 how the program survived this long, with the caliber of people
19 I think, that we have there.

20 CHAIRMAN DILLS: Eventually, after you did reapply
21 at their request, or suggestion, eventually, when was it
22 approved?

23 MR. ALLEN MEEKER: It hasn't been.

24 CHAIRMAN DILLS: Has never been?

25 MR. ALLEN MEEKER: Right now, I went -- as a matter
26 of fact, I went by the office yesterday, and they're typing
27 the forms, and their best guess right now is, within 30 days,
28 I should be funded. I don't believe that. As a matter of

1 fact, some of the -- we've had verbal conversations with Mr.
2 Eid at the south area office, regarding certain things that
3 still are required.

4 The last conversation we had, there were two things
5 required, one is a cleared termite, and the other is my 1979
6 tax returns, a copy of that for the third or fourth time. I
7 went down to the Cal-Vet office yesterday, I satisfied the
8 one requirement, of the '79 tax return. I haven't satisfied
9 the requirement to clear the termite, that should be done
10 today. However, the package has been approved, it's in for
11 typing, and it's heading to Sacramento.

12 What's going to happen, is that rascal is going to
13 hit Sacramento, the escrow department down there is going to
14 kick it back to the south area office, because the termite is
15 two years old.

16 CHAIRMAN DILLS: Any questions of the witness, any
17 comments? Thank you. Mr. Meeker?

18 MR. BILL MEEKER: My name is Bill Meeker. I am the
19 broker that was helping Allen on this, and let me clarify just
20 a couple of things for you, in the process of this, what was
21 required. The secretary, Ms. Lytle, indicated that the
22 problem was money. Let me assure you that the problem is not
23 money. It's naive and simplistic to think that the problem
24 is money, when it's really caused by people who are incompetent,
25 incapable of administering a program, or carrying it out.

26 Almost all of the problems could be solved with
27 competent coordination and clarification, and communication.
28 Lies and incorrect information is what's causing the problem.

1 Almost everybody can adjust their schedule, either not buy a
2 house, or not sell a house, if they know beforehand what the
3 facts are. But on every turn, we have things that have been
4 given to us incorrectly.

5 For example, originally, we wrote the deed by a mets
6 and bounds description. Cal-Vet said that that was not
7 acceptable, that they wanted to have a subdivision map
8 identifying the particular parcel, specifically, that it
9 should be approved by the county. So, we filed a subdivision
10 map. It took about six, seven months to do that, and when we
11 had that, it was approved by the county.

12 The improvements were not in yet, and it wasn't
13 recorded, however, then the Cal-Vet said, well, we have to
14 have a separate entity, with it entirely by itself, assigned
15 the Assessor's parcel number, and recorded. So, we went back
16 again to the county, we filed a parcel map in this case,
17 breaking off the one piece of property from the entire
18 subdivision, so that we could convey that title at that time.

19 During this interim, they funded Allen's loan the
20 first time. They sent him payment cards, and he's been
21 receiving them for two years, almost two years, with the
22 exception of this past month, which they finally -- probably
23 forgot to send a payment card. The fact that his loan is
24 approved in the Cal-Vet office, that they've been sending
25 bills with zero balances for 18 months to two years, indicates
26 that they really don't know what's going on.

27 Afterwards, we were in the process of filing this
28 parcel map. That, again, takes about six months. During that

1 time, we received notification from Cal-Vet escrow department
2 saying, we're going to pull this package, unless you tell us
3 why it's taking so long, or close it. At that time, everybody
4 involved, title company, myself as a real estate broker, and
5 Allen as a veteran, contacted different offices of the
6 California Veterans, and explained to them the situation, that
7 because of their requirements, we were required to go back and
8 get parcel maps, that takes time.

9 Evidently they knew that, because they sent informa-
10 tion to the title company saying, okay, hold the escrow open.
11 Two months later, without any other questions, or warning, or
12 anything else, they sent another letter to the title company
13 saying, return that package no matter what, we've waited long
14 enough. Now even that, we could have lived with, if the
15 package gets sent back to the escrow company, it's just a
16 matter of retyping it again, refilling it out, and processing
17 it, and sending it back to the escrow department when every-
18 thing satisfies Cal-Vet.

19 But once again, this information, as Allen stated,
20 we went to Cal-Vet and said, okay, what do we do now, we're
21 ready to close, and you've got no money. Rather than simply
22 redrawing the papers, sending them to the title company, they
23 asked Allen to file a complete, new application. That was
24 in October, October 15th.

25 They said, originally, we just need a couple of
26 updates. The couple of updates went to a new appraisal. It
27 took eight weeks to get an appraisal, and only after I called
28 a personal friend of mine involved in the Cal-Vet department,

1 we got that. Since that, the same house, which has been
2 approved for two years, suddenly showed up with another three
3 or four restrictions and conditions. Most of those we've
4 been able to eliminate simply by talking to people, but we
5 don't really know where it stands.

6 Allen's got his letter of approval, as he says, but
7 quite frankly, we've had that before, and we're very worried
8 about whether it will actually fund or not.

9 CHAIRMAN DILLS: What county, and what community?

10 MR. BILL MEEKER: Sacramento County, southern office,
11 Mr. Eid is the supervisor there.

12 CHAIRMAN DILLS: The property is in Sacramento
13 County?

14 MR. BILL MEEKER: Yes, it is.

15 CHAIRMAN DILLS: Thank you. Senator Marks?

16 SENATOR MARKS: I'm just trying to find out the --
17 maybe I should ask you, Mr. Meeker, because you're a real
18 estate broker?

19 MR. BILL MEEKER: Yes.

20 SENATOR MARKS: What the procedure is that followed
21 when a Cal-Vet loan application is made. Is there anything
22 enclosed in the literature, or papers that are sent to an
23 applicant that indicate what the applicant must receive
24 before a loan is approved? What I find confusing is the
25 verbal statements that differentiate with the possibility
26 there may be a requirement that there must be a written
27 statement, if any of those have been received. I'm just
28 curious to know what you are supposed to receive when you

1 apply.

2 MR. ALLEN MEEKER: I'm glad you asked that. The
3 Cal-Vet office has a form, it has no form number, it has no
4 date, it has little blocks with requirements on it. That's
5 what they use to tell you what you need to do. All right.
6 There's blocks where you need a termite, you need an update,
7 a credit check, whatever it is you need is marked on there.

8 All right. Like I say, no form number, no date,
9 no way to trace it, no way to find out if it got in the file
10 or not. As a matter of fact, the forms that I received in
11 the mail, the latest form, saying that I need the two
12 requirements, the '79 tax return, a copy of my '79 tax return,
13 and the clear termite, is not in my file. I received that,
14 and apparently, that's what Mr. Eid, at the south area office,
15 and I were talking about over the phone.

16 When I get down to the office, I look at my file,
17 that particular form is not in there.

18 CHAIRMAN DILLS: Excuse me. Members of the committee,
19 in the manila folder which is before you, there is a copy of
20 what we are discussing, called "Application to Purchase", I
21 take it, and there are no numbers. Well, down at the bottom,
22 there's some sort of -- is that the one you made reference to,
23 this particular form?

24 MR. ALLEN MEEKER: No.

25 CHAIRMAN DILLS: No, this is not it.

26 MR. ALLEN MEEKERS: It's a form with several little
27 blocks along the left-hand margin. It's legal size, at least
28 a couple of mine were.

1 SENATOR MARKS: Mr. Chairman, what I'm trying to
2 find out, if I may --

3 CHAIRMAN DILLS: Yes.

4 SENATOR MARKS: -- I think it's going to indicate
5 what the department is or is not doing. I'm just trying to
6 find out what is going on. In this package the Chairman is
7 referring to, the second document, which is headed, "Department
8 of Veterans Affairs", and has a date and a person's name, I
9 presume to be filled in. It says, if the selected home site
10 is approved as a building site, information on your loan
11 application indicates that on this date, you're financially
12 qualified for a loan of blank, and so forth and so on, and
13 then it's signed by -- will be signed by the district manager.

14 I presume it's a form that the department is
15 supposed to send back to you if your loan was approved. What
16 I'm trying to find out is, did you ever get one of these?

17 MR. ALLEN MEEKER: I've gotten that --

18 SENATOR MARKS: I'm just curious to know whether
19 or not the department --

20 MR. ALLEN MEEKER: I've gotten that twice.

21 SENATOR MARKS: And that -- you have gotten from
22 the department a form saying that you have qualified for a
23 loan of "X" number of dollars, signed by the district manager?

24 MR. ALLEN MEEKER: Oh, yes. The first time, it
25 closed. The first time, everything happened, I got the P-11,
26 the P-15, the unassigned form number, the undated form, I
27 got everything. I was funded. The only thing that didn't
28 happen is I didn't sign the final paper. I'm in the computer

1 as being funded from 1979.

2 SENATOR MARKS: If I can just go on one more time,
3 Mr. Chairman. The next part of the form says, a final loan
4 recommendation will be made, and as funds are available, your
5 Cal-Vet loan will be processed and funded. If the loan funds
6 are in short supply, a commitment letter will be issued for
7 future funding. Have you, in fact, gotten that?

8 MR. ALLEN MEEKER: Yeah.

9 MR. BILL MEEKER: Allen, the first time, he got all
10 of those, saying that his funds were committed, and that he
11 had funds, the funding package was sent to the title company.
12 The only thing that has to be done from that point, is Allen
13 to sign those final papers, and for Cal-Vet to give the money
14 to the title company, so the title company can give it to the
15 seller. So, everything was done the first time.

16 But because of a time lag, not being able to do it
17 in the time that they said that it should be done, they pulled
18 that package completely out of the escrow department. Now,
19 when Allen went and said, let's get it back in the escrow
20 department, they said, no, it would be easier if we started
21 the whole thing all over again. We have gone --

22 SENATOR MARKS: You did receive a commitment letter?

23 MR. BILL MEEKER: Definitely.

24 SENATOR MARKS: Okay.

25 MR. BILL MEEKER: And in fact, we received it the
26 second time. We received a commitment letter the second time.

27 SENATOR CARPENTER: Mr. Chairman?

28 CHAIRMAN DILLS: Senator Carpenter.

1 SENATOR CARPENTER: After these experiences with
2 the Department of Veterans Affairs, how concerned do you
3 think they really are with meeting your needs in this instance,
4 with respect to this loan?

5 MR. ALLEN MEEKER: I don't think the Department is
6 concerned with the needs or requirements of the veteran at all.
7 I think they are more concerned, at this point, with covering
8 themselves. They've had the opportunity, based on their own
9 guidelines, for example, to fund my loan. They haven't done
10 that; for what reason, I don't know.

11 They have taken no initiative to solve any of the
12 problems that I'm aware of. They've taken no initiative to
13 solve my problem. They've had the opportunity, and they've
14 just simply not done so. I don't know what -- understandably,
15 they're going through some problems, they're in big trouble,
16 but it seems like either they're unable, or unwilling to
17 help themselves or the veteran.

18 SENATOR CARPENTER: You, having had this experience,
19 what has been the effect of, say, on your confidence in the
20 quality -- or in the ability of government to meet your needs?

21 MR. ALLEN MEEKER: I have faith in government,
22 basically. I know it works, it can work. I think we have
23 some problems in some of our departments. We've placed the
24 ~~wrong people in the wrong positions for too long a time.~~
25 That's why I would hope that you support Senator Nielsen's
26 effort to get a committee going, and give that committee the
27 teeth it needs to do the job it needs to do.

28 SENATOR CARPENTER: Thank you.

1 MR. ALLEN MEEKER: You're welcome.

2 CHAIRMAN DILLS: Further questions or comments?

3 Thank you. The next witness please.

4 MR. PROCTOR: Mr. Chairman, Senators, I'm Coleman
5 Proctor, I'm a builder out of Bakersfield, and I build and
6 develop strictly residential housing, price range, \$50,000
7 to \$65,000 area. Because of this area, naturally, they're
8 very attractive to the first home buyer, which we have quite
9 a number of Cal-Vets. As a matter of fact, in the last
10 subdivision, I've catered to about 15 veterans, or have tried
11 to, we're in the process of.

12 The past experience here, we've built between
13 \$5 and \$6 million in the past 24 months, worth of housing,
14 and so, you can see, by those figures, that we are a substan-
15 tial builder there. We have \$10 million on the boards this
16 year to build. I personally designed my own homes, I build
17 them as a general contractor, and I personally sell them, so
18 I have quite a range of all needs from all spectrums there.

19 As well as, we negotiate the municipal improvement
20 agreements, construction loans with lenders, take out
21 financing, PG&E, water and subcontracts. What this all means
22 is that this takes an understanding, and an awareness in a
23 very wide spectrum. The reason I make this point is there
24 was a definite letter addressed and directed on my meeting
25 with Alice Lytle, Jim Neff for the Governor's Office, that
26 took place in March, and that's why I wanted to bring this
27 to the Senators.

28 My survival depends, basically, on the ability to

1 understand, and to rely on these negotiations and contracts
2 that we enter into. In our business, our word is our bond,
3 basically, and what that means is -- I've always lived by
4 that, and when I talk to these people up here at Sacramento,
5 I figured that's what the hell they were all about, but I
6 found out a lot different.

7 I feel that we have an extremely serious problem
8 here. It's what I feel to be a very worthwhile program, this
9 Cal-Vet program. After building several subdivisions, and
10 working with local lenders, Bank of America in particular,
11 the majority of the take out activity, including conventional,
12 FHA, and VA financing, I've worked very closely with the banks,
13 and have utilized their consultation and expertise in the
14 areas of financial mix.

15 In this area, an awareness of the ability to fund
16 is essential, and it's of utmost importance, especially in
17 dealing with Cal-Vet. I understand this, and I rely on this,
18 and this is where I get into this area. It is in the area
19 that the serious problem exists.

20 In October and November of this past year, '79,
21 after being told not only by the Cal-Vet appraisers that were
22 out into our subdivision, but also the district manager, Jim
23 Son is our area manager there in Bakersfield, that there were
24 ~~sufficient funds available, and even to fund clear through~~
25 April of 1980. That was a quote from one of the appraisers.

26 Well, I didn't stop with -- because an appraiser
27 told me that they had those available funds, I turned to the
28 regional office here in Sacramento for confirmation, of which

1 I got, by the way. I explained that I was a builder out of
2 Bakersfield, and that I had several Cal-Vets waiting to
3 purchase homes, and prior to taking them on as buyers, I
4 wanted to confirm the availability for funds for these
5 incoming vets.

6 I was told that there was no problem, there were
7 plenty of funds available. That was Mr. Smith that I spoke
8 to. I wanted a more specific answer in regards to the time
9 frame, because -- just because there were no problems and
10 plenty of funds available, I don't know if you're aware, but
11 it takes anywhere from 90 to 120 days to process a Cal-Vet
12 loan, basically, give or take.

13 So, in regards to a more specific answer to the time
14 frame of the applicants, I asked him if 90 to 120 days would
15 more or less cover the processing for these vets that wanted
16 to make application. The answer, again, was yes, and he
17 thought that sounded about right. So, I asked if, in fact,
18 that there would be funds available in this time frame. Again,
19 the reply was that there was plenty of money, and there would
20 be money available for those veterans making those applications
21 at that time.

22 So, early in November, I took on several vets, as
23 a matter of fact, and again, checking with the district
24 manager, Jim Son, I was advised that I should see the funding
25 in mid-February on these -- there was about a half a dozen at
26 that point in time, which I did not receive. In fact, the
27 extra load was in the area of \$350,000 of which I had to carry
28 at two over prime, which meant 22 percent interest. I was

1 paying in excess of \$600,000 at this point in time.

2 To break it down house-wise, I was paying in excess
3 of \$1,000 per unit, per month on several houses. I met in
4 March with Assemblyman Don Rogers, Senator Walter Stiern,
5 Secretary of Consumer Affairs, Alice Lytle, and the Governor's
6 Representative was Jim Neff. I guess the best word that I
7 can use, that I was absolutely appalled at that meeting.

8 Senator Stiern, Don Rogers, I have to commend.
9 They definitely got right in there, they wanted to know why
10 the problems existed, and we got a lot of what I call, just a
11 bunch of talk from Ms. Lytle, and this was regarding the area
12 -- she was pointing her finger in every other direction but
13 the Veterans Administration. First it was the Treasurer's
14 problem because he didn't sell timely. Then it was the
15 economic problems, because of the economy. Then there's
16 something going on in Washington, a bill that would have
17 some affect on who they could fund, and when they could fund.

18 But the problem that -- I think, that really
19 appalled me was the fact that I came forward pretty heavy and
20 pretty hard, and pretty loud, and it was very obvious that
21 all they wanted was to get me off their back, and by statements
22 on behalf of Ms. Alice Lytle, she said, I realize they had
23 just completed negotiations on \$200 million worth of bonds.

24 I said, yes, I'm aware of that, and about that time, Jim Neff
25 kind of sounds in there, will this take care of Cole Proctor.

26 I really -- I'll tell you what, this is my first
27 experience with Sacramento, and I'm going to tell you, it's
28 a hell of an experience for me. I'm learning a lot. But quite

1 frankly, I'll tell you what, there's a lot of good people out
2 here. As a builder, I'm seeing a lot of people get hurt. I'm
3 talking about veterans, builders. I'm not a big builder by
4 any means, but we're a substantial builder in Bakersfield.
5 It's not a real large metropolis, but we're hanging in there,
6 and I feel that it's really an unjust situation that you can
7 get a commitment, turn to Sacramento for an acknowledgement
8 and a commitment from specific people, identified as directors
9 of this program, and management of this program, that
10 absolutely confirm that there's no problem.

11 So, you go ahead, and you take on this obligation,
12 and financial responsibility, and it about puts you down a
13 tube. I think that's very unfortunate. That's my part of
14 it, and it's more unfortunate for some of the vets, and the
15 problems that I saw that they had, and had to deal with.

16 CHAIRMAN DILLS: Senator Marks?

17 SENATOR MARKS: One thing I still find confusing is,
18 and I think this is really, to me, vital, insofar as meeting
19 commitments, and I would think this committee ought to see
20 what the commitments were. I feel very badly about all of
21 the people who have testified, and I want to know what the
22 commitment was. Did they, in fact, receive a commitment, or
23 did they receive a statement saying that this is subject to
24 available funds.

25 MR. PROCTOR: Negative, Senator.

26 SENATOR MARKS: You're all going to produce --
27 Senator Nielsen will produce, here, information from the
28 witnesses here, showing that they received specific commitments?

1 Because I think that is very important, whether they did or
2 did not receive commitments. They may have received promises
3 which should have been kept, but did they, in fact, receive
4 commitments, which is a difference, a legal difference.

5 MR. PROCTOR: Well, quite frankly, you're dealing
6 with a lot of people here, off the street, that aren't lawyers,
7 and the legal commitment, as for myself, again, I brought only
8 numbers to your attention to show that I feel, that as a
9 businessman, I'm hanging on.

10 SENATOR MARKS: I'm not defending the department,
11 I'm just trying to find out, if we're going to act upon a
12 resolution at this time, I'd like to know what the people here,
13 who have testified, received. Did they receive a P-15 form,
14 which all the members have this, which says, subject to
15 available funds, and says whether there are no Cal-Vet loans
16 are available. Did they receive that? Did they receive a
17 specific commitment? What did they get?

18 MR. PROCTOR: I can't answer that for the vets. I
19 am here as a developer and a builder of homes. I deal with
20 vets. Now, as far as their specific packages, I am very aware
21 of those forms that you're talking about, and every one in
22 my subdivisions have, in fact, gotten all those forms. So,
23 I'm aware of the forms.

24 However, in my particular situation, when you turn
25 to Sacramento, and ask to speak to the man, you know, and you
26 want someone who can give you -- in an authority position, and
27 ask them, can you in fact produce, and can you in fact fund
28 these loans if I should take these veterans on, where are we

1 to turn, if we cannot turn to Sacramento, and to the management
2 of this program?

3 SENATOR MARKS: Well, you should be able to turn to
4 the management of the program, but I also think that you
5 should -- what's difficult is, I don't know what people
6 received. I think that has something to do with it. Did they
7 get an assurance, which -- that they would get the loan? Did
8 they get a statement that we'll give you the loan if there's
9 money available? What did they get?

10 MR. PROCTOR: Senator Marks, you're going to hear,
11 in following testimony, that will answer those questions very
12 well for you.

13 SENATOR MARKS: I think that will be helpful to
14 this committee.

15 MR. PROCTOR: They definitely will. What I do know,
16 in fact, that they have received, as I did, and that is
17 verbal commitment. When they walk through that door, as a
18 borrower, as a veteran, to utilize their loan, and they walk
19 up and say, hey, look, I'm going to purchase this home, I'm
20 going to be in X, Y, Z situation, and the man says, hey, no
21 problem, we've got plenty of money.

22 To these people, again, they're not lawyers, they --

23 SENATOR MARKS: I'm not showing any lack of sympathy
24 for the people here, I sympathize with them very greatly. I
25 just want to know what they got.

26 MR. PROCTOR: Okay. Well, I'm sure, again, they'll
27 clear that up. I'm sure that Senator Nielsen can handle that.
28 As for my part in this, I feel, again, I'm directly kind of

1 in between the entire program, and these borrowers that have
2 been hurt, as well as myself, financially, in fact, substan-
3 tially hurt. Again, I guess -- as a matter of fact, before
4 I ever got out of Sacramento, with that meeting with the
5 Senator, and Assemblyman, and Jim Neff and Alice Lytle, I
6 got a call from a Julian Camacho, which further appalled me,
7 as a matter of fact.

8 He had a -- it was obvious to me that he had a
9 dossier on the exact position of all my particular loans, and
10 he made the comment -- I said -- he said he knew that I had a
11 problem, and that he was going to take care of my problem. I
12 said, well, now, wait a minute, I'm just one of many people,
13 and I have with me, several packages, as a matter of fact,
14 that I have taken copies to Senator Stiern and Assemblyman
15 Rogers.

16 He says, hey, I don't care about their problems.
17 I'm interested in taking care of your problem, we're going to
18 take care of you. Quite frankly, I hung up on the man at that
19 point in time, because it was obvious that it was going to
20 be another whitewashing going through, and all they wanted to
21 do was get somebody off their back.

22 At that point in time, I called Mike Wallace in
23 New York, and about that same time, Vic got a hold of me, which
24 is Jim Nielsen's aide, and I kind of held off on the New York
25 situation with Mike Wallace, because I'll tell you what, I
26 still believe in the government, the United States, and I'd
27 sure as hell like to see this thing work, and that's why I
28 want to be a part of it.

1 I think we need some desperate changes up there.
2 There's all kinds of information that will indicate that the
3 -- that this program is, in fact, mismanaged. They really
4 should not be making statements that there are, in fact,
5 dollars, when actually they were betting on the come, and they
6 got themselves in a bind.

7 We have information to supply to you, Senators, in
8 this regard. As a matter of fact, it will show that they had
9 a tremendous increase in volume, months and months prior to
10 the funding of these loans, and they should make preparation
11 for these, and not just say, hey, we've got plenty of dollars,
12 and betting on the come. They got caught there.

13 So, I guess that when I read the -- I left here on
14 the 25th of March after meeting with these people, and I was
15 delighted to read this SR-35, and I put my faith back into
16 the system, that I feel that this is what we're all here for,
17 and I'd like to see some changes. It's going to -- I'd like
18 to know, as a developer, I'm a vet, by the way, and I have
19 utilized my Cal-Vet, and I would like to see -- it's a very
20 worthwhile program.

21 I would like to see it either continue on in a very
22 smooth flowing way that we all know, and understand how it
23 works, and get those commitments either in writing, or
24 whatever the program should be set up for, or ban it, or
25 whatever you've got to do. But we should know where we sit,
26 not just on a fence. I guess that's about all I've got on
27 the subject.

28 CHAIRMAN DILLS: Do you know who Julian Camacho is?

1 MR. PROCTOR: He addressed himself as -- yeah, he
2 said something like he was aide to Alice Lytle, deputy
3 secretary, or something, to Alice Lytle, I believe he said.

4 CHAIRMAN DILLS: And would you repeat again, as
5 best you can recall, what he stated to you?

6 MR. PROCTOR: Well, when he called, he told me that
7 he knew that I had some problems that needed taking care of.
8 I said, that's correct, I am one of many people, I am sure,
9 that need their problems taken care of. He said yes, but
10 we're going to take care of your problems. I said, well, okay,
11 that's fine. So, he started discussing with me, and he gave
12 me a rundown as to who all my vets were, and it was very obvious
13 to me, that he had a portfolio, or some type of a file right
14 in front of him, and he said, we're going to see that yours
15 are taken care of.

16 I said, well, now, wait a minute. By this time I
17 had contacted many people across the State of California. I
18 have talked to presidents of the boards of realtors, in
19 probably almost half the counties in the State of California,
20 to big builders. I said, hey, look, I'm not the only one with
21 this problem, I'm sure we've all got these problems.

22 CHAIRMAN DILLS: Thank you.

23 MR. PROCTOR: At any rate, he said, I don't care
24 ~~about these other people, we're going to take care of Cole~~
25 Proctor's problems.

26 CHAIRMAN DILLS: Any questions or comments from
27 members of the committee? Thank you, Mr. Proctor.

28 SENATOR NIELSEN: Mr. Chairman, in introducing the

1 next few witnesses, I might make a comment that somewhat gets
2 to Senator Marks, and I will submit this to the committee. It
3 is germane also to the next issue, I think, that ought to be
4 raised. This is kind of a form letter that certain of these
5 veterans got.

6 The last sentence in one of the paragraphs says,
7 "That if loan funds are in short supply, a commitment letter
8 will be issued for future funding." The next witnesses are
9 staff members of the department, in field offices, and I
10 think one of the contentions is that they were instructed not
11 to let anybody know about the difficulties that were occurring
12 with the funds, and that those veterans were given assurances
13 that everything would be okay, go ahead.

14 I think that this is one of our key problems. It's
15 a matter of misinformation, and as the witnesses come up, I
16 think they can shed some light. I would like to categorically
17 state, the witnesses are here at my request. We did not feel
18 that it was necessary to subpoena anybody at this point in
19 time, but I am very concerned with the future of these
20 individuals, that nothing would occur to them, pursuant to
21 their testifying here.

22 SENATOR MARKS: May I ask Senator Nielsen a question?

23 CHAIRMAN DILLS: Senator Marks?

24 SENATOR MARKS: What form is that that you're
25 referring to, that says that -- quoting that.

26 SENATOR NIELSEN: It's a form of the Department of
27 Veterans Affairs.

28 SENATOR MARKS: Is there a number of that form?

1 SENATOR NIELSEN: Yes, we're going to get them for
2 you shortly, Senator.

3 SENATOR MARKS: Those are the ones we have?

4 SENATOR NIELSEN: No, they are not. You'll have it
5 here in just a few minutes.

6 SENATOR MARKS: Thank you.

7 SENATOR NIELSEN: Could the next witnesses please
8 come up.

9 CHAIRMAN DILLS: I would state in the inception,
10 these witnesses are here voluntarily, they're not here by
11 subpoena. The Chair didn't feel that it was necessary to
12 subpoena them because the Chair doesn't feel that any subse-
13 quent action will be taken against them in connection with
14 their employment. But should there be such an endeavor, or
15 an attempt to do so, this Chair would like to tell you that
16 we want you to communicate such activity to us immediately,
17 and that that will not be the last of it.

18 We will not tolerate any intimidation. We will not
19 tolerate any one of your superiors endeavoring to put you in
20 Siberia, or whatever, because you are voluntarily telling the
21 situation as it exists, insofar as you know it, and your
22 experiences in this connection. With that in mind --

23 SENATOR NIELSEN: Mr. Chairman, I would like to
24 kind of pose the question on behalf of the committee, and
25 the members can, of course, address it themselves. These
26 witnesses, I think, would be more comfortable with simply
27 addressing the question of information. What were they told
28 in terms of informing the veterans about the availability, or

1 lack of availability of these loan funds.

2 CHAIRMAN DILLS: The committee members will have
3 that in mind. Thank you. All right. The first witness.

4 MR. OSBOURNE: Jumping to the fore, my name is Jack
5 Osbourne, I'm the Associate Property Agent of the Santa Rosa
6 District Office, and my name has come up twice, or three times
7 this morning.

8 Let me preface this by stating that the staff, of
9 which I am the only journeyman appraiser at the table here,
10 the rest are district office management. The staff, in the
11 last two years, has seen that the volume is exceeding our
12 capability. We started talking in July of 1979, that we
13 couldn't see how we could be processing 2,000 cases a month
14 in applications, because we could see, that's \$100 million a
15 month, that's \$1.2 billion a year, and we didn't have the
16 money. So, we started talking among ourselves, and saying,
17 what's going to happen.

18 We couldn't see how we could get that kind of money,
19 and we didn't see how we could fund it, and we started asking
20 about what had happened in 1956, we had to go to priority
21 funding, and thought we should be doing that.

22 In the district manager's meeting, which I did not
23 attend, but which was relayed to me by my manager, Mr. Keppel,
24 that this information was brought to their attention, and
25 they seemed to think there was no problem, that we had an
26 unlimited source of funds. That we wouldn't run into problems.

27 CHAIRMAN DILLS: Who is they?

28 MR. OSBOURNE: That's the Sacramento headquarters

1 section, the division managers, Mr. Backstrom, Mr. Smith,
2 Mr. Schwabe, and Mr. Lawrence, and that the headquarters staff
3 felt there was no problem.

4 CHAIRMAN DILLS: Thank you.

5 MR. OSBOURNE: I personally didn't think so. I
6 didn't think we had enough money, and I started hedging a
7 bit, substantially, and telling people, well, I don't think
8 we've got enough money. Well, it eventually turns out, of
9 course, in December, we were notified that there was no money,
10 that we would start preference funding as of December 10th,
11 preference accepting of applications.

12 Well, at that time, I looked at our monthly report,
13 and found we had 10,900 and some cases in process. At \$50,000
14 each, that's \$500 million, and we had only maybe \$350 million
15 available, if we could sell all our bonds. So, at that time,
16 I started telling the people I talked to, including Mr. Ius,
17 this morning, that I didn't think we were going to have money
18 for them.

19 Now, this eventually ran into a situation --

20 SENATOR MARKS: Excuse me, sir.

21 CHAIRMAN DILLS: Senator Marks.

22 SENATOR MARKS: What was the time, when did you
23 tell people -- you said you started hedging a bit, and you
24 felt you didn't have enough money. What was the time that
25 you did both those things?

26 MR. OSBOURNE: I started hedging substantially, in
27 talking to people, in November, October or November.

28 SENATOR MARKS: Of what year?

1 MR. OSBOURNE: Of 1979.

2 SENATOR MARKS: You told people during 1979 there
3 was not enough money?

4 MR. OSBOURNE: I started talking to individuals.
5 I'm a journeyman, and not a manager. So, in my conversations
6 with the people who I talked to, I would say, I don't think
7 we're going to have enough money at the end of that time.

8 SENATOR MARKS: In 1979?

9 MR. OSBOURNE: 1979. Then in December, it became
10 even more obvious that we didn't have money, and I started
11 telling people, hey, we don't have money for you. If you're
12 a priority four, a veteran, I don't think we're going to have
13 money for you for maybe two or three years, if all the bad
14 things happened. If all the good things happen, we might have
15 money for you in September, October. We didn't know what our
16 funding situation was going to be, and we didn't know what --
17 whether we could sell our bonds. We didn't know all of these
18 things.

19 So, when people would talk to me, I would tell them
20 this. Eventually, we received instructions that we were --
21 the line -- the headquarters line was that we were going to
22 have money, and that we shouldn't tell people this. So, I
23 eventually wound up telling them, well, now, the official
24 line is that we're going to have plenty of money for you. My
25 personal opinion is that we aren't, and you should prepare
26 for that thing.

27 CHAIRMAN DILLS: Is that spelled l-i-n-e or
28 l-y-i-n-g?

(Laughter)

MR. OSBOURNE: Well, the official l-i-n-e.

CHAIRMAN DILLS: Okay, thank you.

SENATOR NIELSEN: Mr. Chairman, may I interject a question at that point?

CHAIRMAN DILLS: Yes, if he completed his statement.

MR. OSBOURNE: Well, yeah, I have just a couple of more things. It eventually turned out that -- basically correct, that we don't have sufficient money. If we go on to the priority funding, according to the law, which says, priority one veterans have preference on all of our benefits, priority three have preference, I don't see how we can fund any four's, and that's basically my position on it.

CHAIRMAN DILLS: Senator Nielsen.

SENATOR NIELSEN: Are you aware if any of your personnel were ever reprimanded for having told veterans that there was a problem?

MR. OSBOURNE: Well, yes. In our various conversations back and forth, we had received information that the managers had been told that they were not to advise the people that we had money, because we had money. But that's hearsay on my part. Thank you.

CHAIRMAN DILLS: Any questions of this witness?
All right, the next witness please.

MR. VARNUM: My name is Gordon Varnum, I'm the District Manager of Redding, and I would like to add a little bit to Mr. Osbourne's testimony, and the fact that we received verbally, by telephone, on the December 7th date, that we were

1 to stop all applications at that particular point, and advise
2 anybody that submitted an application from then on, that there
3 would be a shortage of funds, and that there would be
4 processing of the ones that had filed prior to the December 7th,
5 1979 date, they would be subject to when funds became available,
6 but we would have to begin to advise the people that we could
7 not continue at the present rate that we were going.

8 They had two shifts working in Sacramento, in the
9 escrow section, to fund the people that were in process,
10 because the volume was so tremendous going into the escrow
11 section from the various district offices. That we, at that
12 point, had received sufficient applications to use all of the
13 authorized bond monies, including the revenue bonds that were
14 supposedly available for sale.

15 So, I had, prior to this, realized that we could
16 not continue, and I had been advising people to do that, and
17 my regional manager informed me that I could no longer put
18 that kind of information out. Later on, in processing time,
19 we were verbally, again, advised that there was no problem,
20 we would be able to continue funding, and this continued
21 through -- on February 11th, we received a telephone call,
22 and said, we cannot even fund those that are now currently in
23 our escrow in Sacramento.

24 We had escrows, 400 and some odd escrow instructions
25 issued to the individual escrow companies throughout the
26 entire state. We had 900 and some odd cases laying in our
27 escrow that were ready for escrow instructions to be issued,
28 and they had to sit there, waiting on funding. It was very,

1 very difficult on our part, to get any information out of
2 Sacramento, because it was a limbo state. They didn't know
3 where they were, they didn't know what they were doing, and
4 as much as we wanted the information, we could not pass out
5 information to the individual veterans in telling them where
6 they were. We could not tell them when we could fund them.

7 Mr. Denton was one of the individuals that testified
8 earlier today, whose package was physically in Sacramento,
9 ready to fund, and we could not do that. Consequently, he
10 was forced to sell, due to his economics.

11 Going back just a little bit, the management staff
12 seems to operate primarily by verbal messages, rather than
13 by the formality of issuing memos for direction purposes, and
14 so forth, and this is one of the big deficiencies that we have
15 had in communications between the headquarters office and the
16 local district offices. Our communications come in -- well,
17 we're going to do this now, and we're going to do that now,
18 and sometime in the future we might get a memo, maybe 5, 10,
19 or 15 percent of the time, we would get a memo to cover that
20 particular subject, and then it would be inadequate to fulfill
21 the obligation of what its intent was.

22 We would have to call back and see what they meant
23 by a certain paragraph, and so forth. That's pretty much the
24 type of thing that we have been putting up with for a great
25 deal of time.

26 CHAIRMAN DILLS: Any questions? Senator Greene?

27 SENATOR GREENE: Sir, when you say a great deal of
28 time, what do you mean?

1 MR. VARNUM: I would say that this probably started
2 as early as 1977.

3 SENATOR GREENE: Okay, that this problem began to
4 arise.

5 CHAIRMAN DILLS: Thank you. Next witness please.

6 MR. PRESTON: My name is Bob Preston, and I started
7 to work for the department in October of 1946. Of course,
8 since that time, we've seen a number of different administra-
9 tions, different philosophies, and we've run out of money from
10 time to time, been on the priority system, but never have I
11 seen as much mass confusion as we've had during this last
12 few months.

13 Looking at the people in the headquarters staff, I
14 have to feel that it's largely due to incompetence. We have
15 a division manager, and four supervisors. Only one of those
16 people has ever worked in a district office; only one of them
17 has ever made an appraisal; and the rest of them really don't
18 know what to do in the way of direction to the district offices.

19 As I say, I work in headquarters, I'm at the district
20 manager's level, but I don't have a district. I know that there
21 has been disagreement among the supervisors as to what should
22 be told to the managers, and as Mr. Varnum pointed out, most
23 of their instructions were by phone, rather than written
24 communications. Different ones said different things. I'm
25 aware that veterans calling in, depending on who they got a
26 hold of, as to what kind of an answer they got.

27 CHAIRMAN DILLS: Thank you, Mr. Preston. Any
28 questions? Thank you.

1 MR. RICH: I am Pat Rich, the District Manager in
2 San Diego, and I have heard many of the horror stories that
3 you have heard from different veterans in here today. You
4 are only hearing a small group of them. Our big problem, I
5 feel, is the veterans before December 7th that were not told
6 that funds would be short supply, or maybe not even funded,
7 were not really having the trouble with those that were told
8 up front that there's no money, and those are the cases that
9 were accepted after December 7th.

10 Just to give you a little bit of what happened in
11 San Diego, apparently the decision was made, when we ran out
12 of money completely, on February the 11th, the 12th was a
13 holiday, or the 13th, I don't know which day. All the
14 remainder of that week, I was sending up purchase recommenda-
15 tions to Sacramento, and on Friday, I get a memo that they're
16 no longer funding, as of the 11th, and they sent me back all
17 my purchase recommendations.

18 I got my information on TV, Cal-Vet is broke, they're
19 not funding. It is the communications line. We're not getting
20 it, we're not getting it out to the vets up front. We have
21 to do that. They'd accept it, if we'd tell them what the
22 situation is, they can live with it, they can build around it.
23 The problem is there's been a lot of information out, that
24 we can't get the correct information out to them, because we
25 don't know what the correct information is.

26 I just will support what the other managers are
27 saying.

28 CHAIRMAN DILLS: Questions? Thank you. Mr. Dal Porto.

1 Next witness please?

2 MR. KEPPEL: My name is Jack Keppel, I'm the Manager
3 of the Santa Rosa District Office. Jack Osbourne is journeyman
4 appraiser in that office. What he said is basically correct.
5 I would like to add, however, that there is no big magic about
6 this cash projection. If you can balance your checkbook, you
7 can figure that out.

8 I'm a little irritated because, as have all the
9 other managers, we figured out that we were out of money. In
10 October we had a district manager's meeting. We were told at
11 that time, there would be no problem on the money, if certain
12 things happened. Well, dealing with the Treasurer's Office is
13 sort of an iffy proposition. He can't schedule the sales
14 exactly when you might want them. The market for revenue bonds
15 had not been developed.

16 But I got to thinking, well, maybe they would pull
17 it off. So, I would tell anybody who applied before the 10th
18 of December, no problem; yet it turned out there were serious
19 problems, through lack of funding.

20 SENATOR MARKS: Mr. Chairman?

21 CHAIRMAN DILLS: Senator Marks.

22 SENATOR MARKS: Now that these gentleman -- are the
23 people who testified, are they people, all of whom applied
24 before December, before the cutoff period?

25 MR. KEPPEL: I believe there was one that applied
26 after, one that applied in January, as near as I could tell.

27 SENATOR MARKS: But all the people who applied
28 before that date, you, at least, notified them, that there

1 would be no problem as to funding, as to those people.

2 MR. KEPPEL: As Mr. Rich said, those who applied
3 after the 10th of December were told, this will be if and when
4 we get the money.

5 SENATOR MARKS: Is that the situation with all the
6 people at the stand here, insofar as applications that were
7 made before December, 1979? Did each of you tell whoever
8 talked to you that there was no problem with funding?

9 MR. KEPPEL: I would hedge a little --

10 SENATOR MARKS: Or did any of you tell any of the
11 people who applied before December of 1979, that there was a
12 problem? Do any of you care to answer that?

13 MR. KEPPEL: I would hedge a little, and say that
14 Sacramento said there is funds available --

15 SENATOR MARKS: I'm not asking what Sacramento did,
16 I'm asking what you did, because I presume that they dealt
17 with you.

18 MR. KEPPEL: Yes. I would tell them that Sacramento
19 says there is money available.

20 SENATOR MARKS: Is that the same situation with each
21 of you?

22 MR. KEPPEL: That is correct.

23 MR. VARNUM: That is correct.

24 MR. DAL PORTO: That is correct.

25 SENATOR MARKS: And -- that is correct. And none
26 of you told any of the people who applied before December 1979,
27 regardless of how you personally felt, as to availability of
28 funds, none of you told any of the people that there was a

1 problem with funding, who had applied before December 1979?

2 MR. RICH: I'll address that question, Mr. Marks,
3 in that we don't talk to every applicant.

4 SENATOR MARKS: I realize that, but those to whom
5 you did.

6 MR. RICH: Those whom we did talk to, real estate
7 brokers, and people that we had a chance to discuss it with,
8 we told them that we couldn't see how they were going to make
9 it, because back in -- I think it was the latter part of
10 September, we could see as much as 550 million loans in the
11 pipeline, and perhaps only \$300 million to cover it.

12 SENATOR MARKS: I find your answer a little bit
13 confusing. I gathered from the other gentlemen that --

14 MR. RICH: We had no official --

15 SENATOR MARKS: -- they were saying -- that's why
16 I'm asking this question, they were saying, insofar as the
17 people to whom they talked, people who had applied before
18 December, before this cutoff period, that they were saying
19 to these people that there was no problem with funding. Even
20 if they may have thought in their minds there was a problem,
21 you're saying the situation is different in your case?

22 MR. RICH: That was the official answer. In fact,
23 in November --

24 SENATOR MARKS: What was your answer?

25 MR. RICH: My answer, to the individuals I talked to
26 is, I am worried. I'm worried about the funding, we'll put
27 your cases through as fast as we can, and I hope the money
28 holds.

1 SENATOR MARKS: Well, Mr. Chairman, the difficulty
2 with the answers, I mean, is he by himself, or do the others
3 disagree with what he says?

4 MR. KEPPEL: I would hedge my answer.

5 SENATOR MARKS: You hedged?

6 MR. KEPPEL: I would hedge, yes.

7 SENATOR MARKS: You didn't specifically say there
8 was no problem?

9 MR. KEPPEL: No. If I was asked, will there be
10 money for me, I would say, I hope so, but I'm not sure.

11 CHAIRMAN DILLS: Sacramento says there is money.

12 MR. KEPPEL: Sacramento said there is money, that's
13 correct.

14 SENATOR ALQUIST: Well, let's clarify that a little
15 further.

16 SENATOR MARKS: I'm not sure it's clarified, but
17 I don't want to pursue it any further.

18 CHAIRMAN DILLS: Well, perhaps Senator Alquist --

19 SENATOR ALQUIST: Yes. Were you instructed directly
20 by your superiors in Sacramento to say that there was money
21 available for these loans?

22 MR. KEPPEL: Yes. That is correct.

23 SENATOR ALQUIST: You were. And who was your
24 superior that told you that?

25 MR. KEPPEL: Mine was a Mr. George Lawrence. I
26 would ask him how the funding was, and he would say well, he
27 wasn't sure himself at all, he would say well, the line is
28 that there are funds available. Then I'd fight with him a

1 little bit about it, and drop it at that.

2 SENATOR ALQUIST: That was the official order from
3 the director?

4 MR. KEPPEL: That was from -- I don't know. That
5 was from my superior.

6 SENATOR MARKS: Just one more, if I may.

7 CHAIRMAN DILLS: Are you finished, Senator Alquist?

8 SENATOR ALQUIST: Yes.

9 CHAIRMAN DILLS: Senator Marks.

10 SENATOR MARKS: When did the P-15 form show up,
11 which said, no Cal-Vet loan funds are available for this
12 application. When were those -- I presume those were sent
13 out by your office, correct?

14 MR. VAPNUM: By the local offices, it started very
15 shortly --

16 SENATOR MARKS: When was the date those were sent
17 out?

18 MR. VARNUM: They started in February.

19 SENATOR MARKS: February. None of those forms were
20 sent out before February?

21 MR. VARNUM: That's correct.

22 SENATOR MARKS: Do you all agree with that?

23 (All nod affirmatively.)

24 CHAIRMAN DILLS: That's February --

25 MR. VARNUM: 1980. I would like to add a little
26 bit further here that those applicants that had an application
27 on file prior to the December 7th date, were not informed that
28 they would be subject to the priority classifications of

1 funding, according to the Veterans Military Code. I, in fact,
2 in my office, issued a letter in March, dated March 6th, that
3 informed those veterans that were in process, who did not have
4 a file in Sacramento yet, but whose application was dated
5 prior to December 7th, and I included the information that
6 there was four classifications of priority by which they would
7 be handled.

8 My regional manager heard about this through the
9 grapevine, or through a veteran, or somehow, and I sent him a
10 copy by his request, and I was reprimanded for having issued
11 that letter. But I was in defense at that particular moment,
12 because the Military and Veterans Code specifically states
13 that we shall process by a certain funding pattern, and this
14 is what I issued to my veterans. I found out later that my
15 office was the only one that did inform the veterans in that
16 particular category, and that did come about, that we had to
17 do exactly that. We must abide by the statute which provides
18 for funding on a preference category system.

19 CHAIRMAN DILLS: You indicated that you were
20 reprimanded. In what manner was that reprimand?

21 MR. VARNUM: That was strictly verbal, sir.

22 CHAIRMAN DILLS: And who was the reprimander?

23 MR. VARNUM: That was my regional manager.

24 CHAIRMAN DILLS: And what is his name?

25 MR. VARNUM: His quote to me was that we are not
26 going to recognize a preference system for those applicants
27 who filed prior to December 7th.

28 CHAIRMAN DILLS: And what is his name?

1 MR. VARNUM: His name is Willard Schwabe. I couldn't
2 think of it for a moment. Willard or Bill Schwabe, we refer
3 to him as Bill Schwabe.

4 CHAIRMAN DILLS: Schwabe.

5 MR. VARNUM: I said, well, Bill, I'm sorry, but I
6 must inform my veterans that the Military and Veterans Code
7 does not recognize a preference before December 7th, after
8 December 7th, I have to advise my vets that this is the way
9 that the book reads. It was later upheld that that was the
10 way we were going to fund. He had informed me that the deputy
11 director had specifically told him that we were not going to
12 recognize the preference system on those applications filed
13 prior to December 7th.

14 CHAIRMAN DILLS: What is the significance of that?
15 Some of us are not as familiar with this, don't live with it,
16 what is the significance of that statement that they were not
17 going to recognize those? Just precisely, what does that do
18 to those applications?

19 MR. VARNUM: The significance of it is that there's
20 a preference four category, which are those veterans that were
21 Korean and World War II, in other words, not of the Vietnam
22 era, were the last in line to receive funding, and they were
23 not informed of that when they made their applications. They
24 were not informed of any preference system before they made
25 their application.

26 Now, those after December 7th were advised of that
27 classification of priorities.

28 CHAIRMAN DILLS: Thank you. All right, any other

1 witness?

2 MR. DAL PORTO: I'm Bernard Dal Porto, District
3 Manager, Santa Clara District Office. I can only add that
4 we have heard many of these veterans, as you have heard today,
5 due to the fact that we were informing them that any applica-
6 tions filed prior to the 10th of December would be funded, and
7 we are still awaiting funding, which I understand, with the
8 bond sale that will occur, if it goes off, next month, will
9 take care of these people.

10 However, we have had our P-87T's, which is our
11 purchase recommendation, sitting in the office for approxi-
12 mately three months now, since February. This is about the
13 only thing that I can add, is that they were, through our
14 district offices, led down the path as far as funding is
15 concerned. We are finding a lot of the veterans who assumed
16 that they would be funded, that have lost their properties
17 because they're dropping out now due to the total lapse of
18 time.

19 CHAIRMAN DILLS: This committee passed the constitu-
20 tional amendment that's on the ballot, and hopefully will be
21 passed. Should that money become available within a reason-
22 able time after the June election, what, if anything, what
23 affect would it have on those applications that have been
24 ~~pending, as you've indicated, for a period of three months?~~
25 Will those persons have to do as one of the gentlemen here
26 stated he had to do, will they have to proceed with a new
27 application, and go all the way through that, and the termite,
28 and all of the things done over again?

1 MR. KEPPEL: It doesn't seem likely at this time,
2 if we get the -- say the bond issue does pass, we have the
3 bond sales scheduled, and then get the funds, that should be
4 September, something like that. There should be no problem
5 on that, as far as starting a whole new loan package.

6 MR. DAL PORTO: No, they can be updated in the
7 district office at the time of the application to purchase,
8 which is our final purchase recommendation.

9 CHAIRMAN DILLS: Do you anticipate that there will
10 be any inclination on the part of the headquarters staff of
11 Sacramento to say, we start all over again?

12 MR. KEPPEL: I can't answer that.

13 CHAIRMAN DILLS: That wasn't a fair question. So,
14 at this point, we might just put it in there, you don't have
15 to answer. All right. The next witness please.

16 SENATOR ALQUIST: Mr. Chairman?

17 CHAIRMAN DILLS: Senator Alquist?

18 SENATOR ALQUIST: If I might ask the manager from
19 Santa Clara, are you aware of any cases of veterans who thought
20 that their loan had been approved to such an extent that they
21 were assured of the purchase, who had then sold the house that
22 they had -- were living in, and then found themselves, after
23 their loan was disapproved for lack of funds, found themselves
24 in a rather desperate situation with no house at all?

25 MR. DAL PORTO: Yes, sir. Senator Alquist, we had
26 at least two in our district, and I'm sure you are familiar
27 with them, that sold their house, were purchasing a new house,
28 they could not qualify for any other type of loan, except the

1 Cal-Vet loan, and they lost their deposit, they sold their
2 prior home, and they were out in this street. This did
3 actually occur, and more than once.

4 SENATOR ALQUIST: Do you feel that the department
5 has incurred any legal liabilities through its failure to
6 carry through what, in effect, was a promise to these veterans?

7 MR. DAL PORTO: That, sir, I would not know. I'm
8 not an attorney, but it did hurt them, certainly.

9 SENATOR ALQUIST: So that so far, no one in such a
10 circumstance has threatened any legal action?

11 MR. DAL PORTO: Not to my knowledge, no, sir.

12 SENATOR ALQUIST: That's all, Mr. Chairman.

13 CHAIRMAN DILLS: Thank you. The next witness please?

14 MR. JOHNSON: Mr. Chairman, Senators, my name is
15 Jack Johnson. Up until March of 1978, I was the Manager of
16 the Cal-Vet Loan Program. Since that time, I have been
17 employed in other pursuits.

18 I was asked to come here to discuss, based upon my
19 18 years of experience, how the fund shortage occurred,
20 without properly notifying the veterans, and other concerned
21 public, and causing veterans, and others, to be financially
22 disadvantaged by it. I must say that I'm unfamiliar with the
23 operation of the Cal-Vet Loan Program over the last two years
24 insufficiently to discuss the specifics of why the funding
25 shortage occurred.

26 I can say that funding has been a continuous problem
27 for the Cal-Vet Loan Program, in some degree, dating back to
28 1956, when it first became apparent that veterans' general

1 obligation bonds could not be sold in sufficient quantity to
2 meet loan demand on a current basis. However, at all times
3 during the interim, up until 1978, and there were a number of
4 them, when the shortage of funds caused a suspension of Cal-
5 Vet loan funding, that veterans were -- and the interested
6 public, were kept fully informed of the fact that when they
7 walked in the front door to make application for a Cal-Vet
8 loan, that there was either funds for their loan, or there
9 was not funds for their loan, and never was a veteran left
10 hanging, so to speak.

11 I think Ms. Lytle made reference to some sophisticated
12 reporting system that is planned. That may be very helpful.
13 However, I think Jack Keppel's remark that if you can balance
14 your checkbook, you can keep track of the funds that are
15 available for Cal-Vet loans is an accurate statement. It's
16 a matter of identifying what the potential funding needs are
17 at the time that loan applications are taken in, and assuring
18 that there is actually going to be bond sales of whatever kind
19 of bonds are authorized, whenever they are needed.

20 The Treasurer's Office in the last couple of years
21 has sold more general obligation bonds for the Cal-Vet Loan
22 Program than ever before in history. It was our practice,
23 prior to 1978, to coordinate with the Treasurer's Office, and
24 with the Department of Finance, and project ahead, as long as
25 two years, and certainly as long as one year, what our funding
26 needs were going to be, so that they could be coordinated with
27 the bond sales for other purposes -- other state purposes.

28 There was only one occasion that I can recall, when

1 it was even necessary to borrow from the general fund for the
2 purpose of covering obligations, and that was not for loan
3 funding, that was to cover the second installment of property
4 taxes that were coming due, and the fact that there was a
5 postponement of a general obligation bond sale when the
6 ceiling on general obligation bonds was five percent. We
7 borrowed -- had authority to borrow \$12 million, we borrowed
8 \$4 million for about a week, and paid it out of cash flow.

9 I can only speculate as to why the funding shortage
10 occurred without people being properly noticed on the reasons
11 -- on the fact that they would not have money available for
12 their loans. I can only say that it seems to me that with the
13 information in hand, which -- and I assume that the reporting
14 systems that were used two years ago, are still in effect,
15 would be sufficient information to allow a gross estimate on
16 funding needs, and would certainly allow coordination with the
17 Treasurer's Office, and the Department of Finance, to determine
18 what the prospects were for bond sales to meet the funding
19 needs. Thank you.

20 CHAIRMAN DILLS: Thank you, Mr. Johnson. Any
21 questions of Mr. Johnson? Thank you, gentlemen. We appreciate
22 your testimony, it's been very helpful.

23 I want to indicate that because of the necessity of
24 our exiting from this room so that it may be used by the
25 Finance Committee this afternoon, we are poaching this day,
26 our regular room has been taken over by the Rules Committee,
27 and we're not arguing with them, because they're running the
28 joint. But I'm going to have to change, Mr. Farber, I'm going

1 to have to change the order in which we hear the representa-
2 tives, and the witnesses, and get directly into the testimony
3 of the Department of Veterans Affairs. If we may, with the
4 opportunity, to come back to you, if there is time remaining.

5 MR. FARBER: Mr. Chairman, I just wanted to introduce
6 the leaders of the veterans organization. I'm not going to
7 testify myself.

8 CHAIRMAN DILLS: I see, not for the purposes of
9 making a statement, is that correct?

10 MR. FARBER: No.

11 MR. OHREL: Mr. Chairman, I do have a statement
12 to make at the proper time.

13 MR. FARBER: This is the State Commander of VFW,
14 Commander Ohrel, and the American Legion has Jack Flynn, who
15 is Past-State Commander, and National Executive of the
16 American Legion, and he is also the Chairman of the Veterans
17 Committee in the American Legion. While I'm up here, I'd
18 like to introduce the first Director of Veterans Affairs,
19 Larry Stevens, he's the man who started it all.

20 CHAIRMAN DILLS: Is that the reason we're in trouble,
21 because of Larry Stevens?

22 (Laughter)

23 CHAIRMAN DILLS: He's the one that started it all.
24 Well, for the purposes of the record, there will be no record
25 of that statement, at all. All right. May we proceed then,
26 Virginia Mae Days, is she here? And the witnesses, if you'd
27 care to come forward, Howell Jackson, Larry Wagner, Don
28 Backstrom, Smith Barney.

1 I think, among other things, I should indicate to
2 the witnesses who are about to speak, that there's one matter
3 of great concern which has come up time and time again, that
4 the district offices, managers thereof, and otherwise, have
5 not been told that no money would be available, but have, on
6 the contrary, been told that money was here, and money is
7 available, and we certainly wish you would address yourself
8 to that, among other matters that you wish to present to us.

9 MS. DAYS: Thank you, Mr. Chairman. I'm Virginia
10 Mae Days, Director of the Department of Veterans Affairs, and
11 also present here today is Mr. Don Backstrom who is the
12 Manager of the Farm Home Division; Mr. Moon who is the Fiscal
13 Officer of the Department; Mr. Howell Jackson who is the Chief
14 Attorney of the Department; and Mr. Larry Wagner, who is the
15 Project Manager for our Fiscal Management Information System
16 which is being developed. Also assisting Mr. Wagner is Mr.
17 Mike McKininsey, who is the Manager of Management Analyst Unit.

18 In the interest of time, I will make a summary
19 statement which will attempt to answer some of the questions
20 posed by Senator Nielsen, in his letter to you, of May 7th,
21 and briefly discuss the program as department staff presents
22 graphics which will detail it. At any point, if committee
23 members have questions, we would be happy to stop, and have
24 the appropriate staff member answer those.

25 I appreciate the opportunity to appear and address
26 the concerns of the committee with regard to the Cal-Vet Loan
27 Program. Because the Governmental Organization Committee
28 reviews the legislative and budget matters relating to the

1 program, we believe it is important for you to know the
2 problems that we have encountered, the improvements that we
3 have made, and the way that we have coped with the substantial
4 increase in demand. However, first let me brief you on what
5 we've accomplished in terms of loan funding in the past five
6 years, as compared with the previous five years.

7 In 1975-79 we made 43,357 loans for a total of \$1.5
8 billion, partly funded from bond sales of \$1.3 billion.
9 Whereas, in 1970-74, we made 29,092 loans for a total of \$563
10 million, partly funded by bond sales of \$550 million. It is
11 true that the current situation differs from any past
12 experience of the department. Although the 1969 problems
13 resulting from the strict interest rate provisions for the
14 sale of G.O. bonds were similar to what we face now, the
15 interest rate differential between conventional interest rates,
16 and the Cal-Vet interest rates, was not as extreme as it is
17 today, and today is not as extreme as it was in February and
18 March of 1980.

19 In addition, the unprecedented demand over the past
20 year, due to statutory changes, and the lack of funding
21 alternatives for veterans in the private sector, did not
22 exist in 1969. It was not a matter of misrepresentation to
23 veterans, but the fact that we, and the rest of the financial
24 community had no reason to believe in October 1979, November
25 of 1979, December 1979, or even mid-January of 1980, that our
26 G.O. bonds would not sell at seven percent, that our revenue
27 bond sale would be delayed by the Oregon Veterans G.O. bond
28 sale, and that we would not be able to draw up to a portion of

1 the \$125 million from the general fund, against our G.O. bond
2 authority.

3 Through the use of the media and our own publications,
4 some of which you're seeing now, we did attempt to keep the
5 general public, legislators, veterans organizations, and
6 veteran service agencies, informed of the increased demand and
7 funding problems. These publications also go to our various
8 offices, districts, farm, and home, as well as our other
9 divisions in veterans affairs.

10 We had no means of communicating with the applicants
11 whose loans were being processed, except to have district
12 office staff stop other work to sit down and write or call
13 each one. Given the circumstances, that did not seem to be a
14 good way to go.

15 Therefore, in June 1978, we had instructed, when we
16 had funding problems due to Prop. 13, that our district offices
17 be sure that forms given to applicants for veterans loans, were
18 spent subject to availability of funds.

19 CHAIRMAN DILLS: You said June 1978?

20 MS. DAYS: 1978, that is correct, when we ran into
21 a similar situation with Prop. 13, when we could not sell
22 bonds while the rating services were looking at the state's
23 credit.

24 ~~CHAIRMAN DILLS: Senator Marks?~~

25 SENATOR MARKS: Let me just address the question
26 that the Chairman just asked. Are you saying that from June
27 of 1978 on, all applications that were made had on them
28 somewhere, stamped, subject to availability of funds?

1 MS. DAYS: That's correct, sir.

2 SENATOR MARKS: Each applicant received such a form?

3 MS. DAYS: That's correct. The initial application
4 had that stamped on it, and various of the other critical
5 points in time applications had that somewhere in the wording.

6 SENATOR MARKS: June of 1978?

7 MS. DAYS: June of 1978. Now, those instructions
8 are still important.

9 CHAIRMAN DILLS: The document that you're showing
10 us has down in the corner, P-14, and it has a date of January
11 '79.

12 MS. DAYS: That's correct, sir, and it's within the
13 body of that letter that it indicates -- let me go on. With
14 regard to the particular forms issued to veteran applicants
15 as their loans reached certain processing stages, the P-14
16 relating to the approval of home sites, in construction cases,
17 specifically states:

18 "If your single-family dwelling is constructed and
19 completed within a twelve (12) month period from the date of
20 this approval on the approved site, a final appraisal will be
21 scheduled. A final loan recommendation will be made if
22 adequate funds are available, your Cal-Vet loan will be
23 processed and funded. If funds are in short supply, a
24 commitment letter will be issued for future funding." This
25 goes to all veterans who are applying for a construction loan.

26 CHAIRMAN DILLS: Do you have a copy of any form, or
27 any letter, that has the date of June of 1978, and as you've
28 indicated, you've sent that out?

1 MS. DAYS: Yes, sir. I'll be getting to that a
2 little later in the presentation when I indicate the communi-
3 cations that we have with the district offices.

4 CHAIRMAN DILLS: Also, the first document that
5 appears before me, in which that expression, subject to
6 available funds, and no Cal-Vet loan funds are available for
7 this application, is dated -- it's P-15, and dated January '80.

8 MS. DAYS: Yes, sir.

9 CHAIRMAN DILLS: All right.

10 SENATOR BEVERLY: Question, Mr. Chairman.

11 CHAIRMAN DILLS: Senator Beverly.

12 SENATOR BEVERLY: Ms. Days, in connection with that
13 language you just read, I have one of the forms in front of
14 me here dated November 29, 1979. I'm not clear exactly what
15 that means. After the dwelling is constructed, and if it's
16 done so within 12 months, a final appraisal will be scheduled.
17 What's the purpose of that?

18 MS. DAYS: Yes, sir. When a person comes in,
19 initially, they get a home site approval. That is, they have
20 a lot that's unimproved. They present to us the plans for the
21 construction. Based on those plans, we have some indication
22 as to the size of the loan that we may be dealing with.
23 However, both because there are changes that are sometimes
24 made to the property, and also because, as you know, particu-
25 larly in this inflationary market, that housing value might
26 increase substantially within that 12-month period, before we
27 give the loan, we go out and appraise the property when it is
28 actually constructed, and we see what it is, really, that we

1 are dealing with. At that point in time, the appraisal is
2 made.

3 SENATOR BEVERLY: Do you feel you're obligated,
4 before that point, to make some sort of a loan? Presumably,
5 the veteran is relying on, let's call it a commitment.

6 MS. DAYS: Yes. Let me say, sir, we feel that with
7 that letter, we are obligated to make a loan to the veteran,
8 but as to the timing of that loan, then that is another
9 question. It depends upon whether or not funds are available,
10 because we do depend on our funding for bond sales. We cannot
11 put money aside -- we would be accused of trying to make -- to
12 generate income, if we took the money and set it aside and
13 just made interest on it for that full period of time.

14 So, we loan the monies that we have to those veterans
15 that are ready to go, and then depend upon future bond sales
16 which are projected to keep up with the ones that become ready
17 after that. And this is what we're telling the people in this
18 P-14.

19 SENATOR BEVERLY: Have you ever gone out after the
20 dwelling is constructed, and appraised it, and so forth, and
21 then ever declined to make a loan?

22 MS. DAYS: Yes, sir. Those cases are -- let me say,
23 the majority of those cases were prior to the legislative
24 change that took the maximum valuation off. We found ourselves
25 having to deny many loans in the past, when the house was
26 constructed, and the valuation went over the maximum value.
27 Since that has been lifted, there are not very many occasions
28 when we have had to do that.

1 SENATOR BEVERLY: What other reasons would there be
2 for declining to make the loan?

3 MS. DAYS: Perhaps Mr. Don Backstrom, who is the
4 Division Manager, could explain that. Don?

5 MR. BACKSTROM: Senator Beverly, that's basically
6 the only reason --

7 CHAIRMAN DILLS: Would you please state your name
8 for the record.

9 MR. BACKSTROM: My name is Don Backstrom, I'm
10 Division Manager. That's basically the reason for those
11 instructions on there. It gives us a chance not to put the
12 money in a separate kitty and hold it for a year, or a year
13 and a half. So, the purpose of that is primarily just so that
14 we can go back and reappraise it to make sure that it's not
15 an over-value, and that the --

16 SENATOR BEVERLY: Is there any other reason that
17 you would deny the loan?

18 MR. BACKSTROM: Not usually, no.

19 MS. DAYS: If it were not finally approved by the
20 local building office, of course, it would not be approved.

21 CHAIRMAN DILLS: Senator Nielsen?

22 SENATOR NIELSEN: Mr. Chairman, the committee has
23 before it a copy of one of these particular letters, and it
24 ~~is of interest in this particular instance. It has that if~~
25 loan funds are in short supply, a commitment letter will be
26 issued for the funding. Then I have, also, a copy, and you
27 do too, of the commitment letter to this gentleman.

28 Now, the commitment letter arrived almost three and

1 a half months after this, and could you tell me why that time
2 lag? Is that customary? The one you have before you is to
3 a particular gentleman from Benicia, and it is a copy similar
4 to that, and then there's also one that says, commitment to
5 purchase property, and the date on the commitment letter is
6 three and a half months after the initial letter as of that.

7 MS. DAYS: Senator, if I could interrupt for a
8 moment. We're at a loss because we haven't, -- what you're
9 talking about, before us.

10 CHAIRMAN DILLS: That gentleman has a couple of
11 pieces of paper there, I don't know if that's the one we're
12 talking about.

13 SENATOR BEVERLY: Mr. Dillard?

14 SENATOR NIELSEN: Yes.

15 CHAIRMAN DILLS: The Dillard matter, all right.

16 MR. BACKSTROM: Senator Nielsen, again, my name is
17 Don Backstrom. I think in this particular case, I think this
18 was probably a home under construction, and when the house
19 was completed, we issued the commitment to purchase the pro-
20 perty. That's probably the reason why you have a three month
21 delay.

22 First we go out and look at the home site, and we
23 tell the person, if you build the home according to the specs,
24 and you complete it within 12 months, we'll come out and make
25 an appraisal. When the house is completed, and the home site
26 letter says that, on this particular one, it says please
27 notify this particular office when your home is within 10
28 days of completion.

1 So, after the home is completed, we go out and make
2 the appraisal, and at that time, we issue the commitment to
3 purchase letter. That's probably why you see a three month
4 span in that.

5 SENATOR NIELSEN: So they vary, the date would vary
6 between this letter, and this one, to any particular individual?

7 MR. BACKSTROM: Yes, when the house is completed.

8 MS. DAYS: In fact, we have some that are two years
9 old where the house still isn't completed.

10 SENATOR NIELSEN: Okay. Now, as I read this
11 commitment letter, what does it really mean? It acknowledges
12 a loan not to exceed, but there is no commitment that I read
13 in this letter.

14 MS. DAYS: That's correct. What it's indicating to
15 the veteran is that he qualifies, that financially, he would
16 be qualified for up to the maximum loan, and that his lot
17 qualifies, his home plans qualify, but that until such time
18 as that house is actually completed, we will not be able to
19 make him a loan offer, because only then can we appraise the
20 property, and determine the availability of funds.

21 SENATOR NIELSEN: It seems like you ought to change
22 the name, then, that's a commitment to purchase property, it is
23 construed as a commitment letter, yet it is no commitment. I
24 think that certainly deceives the veteran.

25 MS. DAYS: Senator, I can't think of any, you know,
26 clearer way to say it, than to say that if the funds are
27 available, the final loan recommendation will be made, and if
28 loans are in short supply, a commitment letter would be issued

1 for future funding.

2 SENATOR NIELSEN: Well, we won't go any further, I
3 just think that's kind of misleading, the words.

4 MS. DAYS: If I may proceed, Senator.

5 CHAIRMAN DILLS: Senator Carpenter has a question.

6 SENATOR CARPENTER: Mr. Chairman, in looking at
7 this lawyer language, that language might well obviate the
8 Department from any financial or legal liability, because a
9 final loan recommendation will be made, if adequate loan
10 funds are available, your Cal-Vet loan will be processed and
11 funded. However, that's only one of the issues.

12 A second issue that I don't think we should overlook
13 is the fact that the district managers were, in fact, on
14 instructions, making the point to applicants that there was
15 plenty of money, and there was no problem, and that they were
16 doing so, apparently on instructions from Sacramento. As a
17 consequence of that specific instruction, many veterans made
18 financial decisions that ultimately cost them a great deal of
19 money.

20 MS. DAYS: Sir, we haven't addressed those allega-
21 tions yet, however, you will see the correspondence that we had
22 with the district managers. I think a part of the problem is
23 that there is a confusion between saying that we have funding
24 authority, bond funding authority, and having cash available.
25 What the managers were told, and what the veteran public was
26 told, was that we had sufficient bonding authority remaining
27 from the 1978 bond issue to cover veterans who applied before
28 December 7th, that is not to say that we have the cash in hand.

1 The funds still have to be obtained by bond sales.

2 SENATOR CARPENTER: Have you heard the testimony
3 this morning? That may have been your original intent, but I
4 think it's perfectly clear from the testimony we have heard
5 this morning that that intent that you just described, never
6 reached the veteran who was making the information request.

7 MS. DAYS: Sir, you addressed yourself to the fact
8 of the instructions from the Department, and I'm saying that
9 is not the instruction that was given to managers, to tell
10 people that there were plenty of funds. What the managers
11 were advised, and what the public was advised, through our
12 releases was that there was funding authority left from the
13 1978 bond act, that would be sufficient to cover those who
14 applied before December 7th.

15 They would still have to be processed according to
16 preference category, because of the fact that we did not know
17 when the bond sales would be scheduled.

18 SENATOR CARPENTER: But at that point too, that they
19 would have to be processed according to preference category,
20 it was not made before December 7th.

21 MS. DAYS: That's correct, sir, because the prefer-
22 ence categories come into play when there is the indication
23 that there will be insufficient funds to cover everybody who
24 is applying.

25 SENATOR CARPENTER: Mr. Chairman, I have a concern.
26 It's five minutes to 12:00, we have to vacate these chambers
27 very soon, and I think we're really just getting down to the
28 heart of this hearing, and I'm concerned about our opportunity

1 to bring this to the kind of conclusion that I think we would
2 all like.

3 MS. DAYS: Senator Dills, perhaps if we went through
4 our presentation, that would answer many of the questions, and
5 then what time is left, we will attempt to answer the other
6 questions, or perhaps your questions could be posed to us at
7 some later date. But I think if we make the presentation,
8 that may be helpful in addressing a lot of the questions that
9 have been raised.

10 SENATOR CUSANOVICH: Senator, I have one that I'll
11 have to have made clear to me before we go any further.

12 CHAIRMAN DILLS: Senator Cusanovich.

13 SENATOR CUSANOVICH: You say that after they finish
14 the homes, when you go out there to see that it's done the
15 way prescribed, that you will now limit the issue of funds?

16 MS. DAYS: What we do --

17 SENATOR CUSANOVICH: How do they build the house
18 without the funds? That's what I'm trying to find out.

19 MS. DAYS: Oh, well, what veterans do when they
20 get the construction loan that way, is they get funding from
21 another source to build the house. One of the provisions of
22 the code is that we cannot fund purchases --

23 SENATOR CUSANOVICH: In other words, they borrow
24 the money from somebody, and they've indebted themselves
25 quite a bit, and now you go out and say, you don't have any
26 funds?

27 MS. DAYS: That's correct. The code provisions --
28 Senator, the code provision indicates --

(Applause)

1 CHAIRMAN DILLS: Please.

2 MS. DAYS: The code provision indicates that we
3 cannot purchase a property in which the veteran has an interest
4 of record, except where it is an unimproved lot, where he comes
5 and applies, and the application is then pending during the
6 construction of the home. So, what happens is, the veteran
7 owns the property, he comes in, he gets his approval to build
8 on that property, his application is pending while the house
9 is being constructed, he utilizes either his own funds, or
10 funds that he's borrowed to construct the home, and only then
11 does the department then move forward with the purchase,
12 assuming that the construction qualifies, and that funds are
13 available. And that's the intent of the wording of the P-15
14 that is issued -- pardon me, the P-14 that is issued.

15 SENATOR CUSANOVICH: Well, maybe that's our fault
16 for not changing the wording.

17 MS. DAYS: But it is a statutory provision, Senator.
18 Should I proceed, Senator?

19 CHAIRMAN DILLS: Well, we are having a problem in
20 determining the extent to which we are going to be able to
21 continue this day, or this morning, or during the noon hour,
22 or whatever. But several of the members have commitments
23 during the noon hour, obligations to constituents who are
24 in Sacramento, and commitments to address them, and meet with
25 them. It was my hope that we could work until the matter is
26 over, even though we might be working as a subcommittee, as
27 such.

28 MS. DAYS: If we were allowed --

1 CHAIRMAN DILLS: I do not wish to get involved in a
2 lot of these just passed here -- somebody passed a resolution
3 in which they've given you a vote of confidence, and all that.
4 What we're trying to do here is not to engage in political
5 games, but to try to find out the facts, with reference to
6 a situation, which has been a very grievous and serious one
7 to those members of the public who are veterans, and who have
8 attempted in the past to secure loans, and have been given what
9 they feel is misinformation, or lack of information, or wrong
10 information. So, I know that it would be more helpful to
11 your particular presentation, were you given the opportunity
12 to have every one of your people discuss these things, but
13 the members of this committee don't have that much time, and
14 they do wish to get right into the meat of the situation here,
15 and to the very issues which are involved.

16 So, they will be interrupting you, and asking you
17 to address particular points for that reason. That's the
18 nature of these hearings, and I'm sure that you have a lot
19 of documentation here, and a lot of people that could bring
20 forward certain information. But if you could address these
21 particular, these specific complaints, one of which is why
22 was not communications sent down in the form of a memorandum,
23 or memoranda, rather than just verbal, so that people would
24 know precisely what it was that you had in mind, and so that
25 they would have something on which to base their -- the district
26 office decisions.

27 MS. DAYS: Senator, we do have that as part of the
28 presentation, as well as the one with regard to indicating at

1 that's what you say there, 1976. So, let's see it.

2 MS. DAYS: Okay.

3 SENATOR MARKS: You want it now, you want her to
4 show it to you now?

5 CHAIRMAN DILLS: Now is the hour as the song goes.

6 SENATOR MARKS: Okay, why don't you produce one.

7 MS. DAYS: Okay. But you have to put with this one,
8 Larry, the instruction, the FOD that went out, field office
9 directive that went out with this. The field office directive
10 on this one went out June 30 of '78. The commitment to
11 purchase letter then was again -- Larry, would you put that
12 one up. It was this form, until we devised the new form,
13 which you are seeing before you.

14 Okay. The new form, then, is dated January '80.
15 The only reason the '76 form -- pardon me, the 1976 date was
16 penciled on that form was to indicate that in '76, it was a
17 different form, it was called --

18 SENATOR MARKS: Is that form that's on the screen
19 right now, is that the form that was used in 1976?

20 MS. DAYS: That was the form that was used in 1978,
21 Senator. This was the original commitment to purchase letter.

22 SENATOR MARKS: Do you have a form that was used in
23 1976?

24 ~~SENATOR GREENE: 1976, that's what we're looking for.~~

25 MS. DAYS: I may have one in my -- we can provide
26 you with one, Senator. We don't have it available here.

27 SENATOR MARKS: But that form, in 1978, at least,
28 says it's conditional?

1 MS. DAYS: That's right, and that was the commitment
2 to purchase letter in '78. In 1980, then, we went to the
3 P-15, which is now the commitment to purchase letter. What
4 the 1976 date indicates is that in 1976, this particular
5 designation of P-15, was for a different document, entitled,
6 "Acknowledgment Letter". We changed the numbering to be the
7 commitment to purchase.

8 CHAIRMAN DILLS: It just doesn't come out that way,
9 lady. You have on this document, written in -- someone has
10 written in on the P-15 in the corner, since 1976, indicating
11 that this is precisely the form that was used since 1976.
12 Also, it says subject to available funds, stamped separately
13 over here, and it says at the top of it, no Cal-Vet loan funds
14 are available for this application.

15 Now, you do not have in the 1978, and obviously,
16 you don't have for us today, such a form in 1976. So, I don't
17 know why you would present to us, and tend to imply, as
18 apparently that's what you're doing, that this is precisely
19 the same form that's been in existence since 1976.

20 MS. DAYS: Sir, it is the form, except that in '76,
21 it was called an acknowledgment letter, and it did not have
22 stamped across it, the preference group.

23 CHAIRMAN DILLS: Well, it didn't have on it the
24 no Cal-Vet funds?

25 MS. DAYS: Yes, it did, sir.

26 CHAIRMAN DILLS: That '76 one does?

27 MS. DAYS: That's correct, and as I say, we will
28 provide you with it. The thing is, that in '76, it had a

1 different title, it was called acknowledgment letter. The
2 only two things different on it -- well, there were three
3 things different on it. It had a different title, called
4 acknowledgment letter, it did not have the preference number
5 in the corner, and it was dated January '76, rather than
6 January '80.

7 CHAIRMAN DILLS: What is the difference in your
8 department, between the difference in meaning between
9 acknowledgment and commitment?

10 MS. DAYS: The acknowledgment letter was given when
11 we actually did not have the funding authority. The commitment
12 letter indicates that we have the funding authority but not
13 the cash.

14 CHAIRMAN DILLS: And you expect that the person out
15 there knows that you have this nuance, this meaning, that
16 commitment doesn't mean a commitment, it means that you have
17 a capacity to sell the money, to raise the money -- to sell
18 the bonds to raise the money, but --

19 MS. DAYS: And it is a commitment to provide the
20 veteran with the loan at the time that we receive the funds,
21 yes, sir.

22 CHAIRMAN DILLS: Well, it's kind of like the fellow
23 who said he's going to marry the girl in June, but he didn't
24 tell her what year.

25 (Laughter)

26 CHAIRMAN DILLS: All right, you may proceed.

27 MS. DAYS: Yes, sir. As of December 10th, this form
28 was to be used, instead of the P-11 application to purchase,

1 once the appraisals were completed. This was announced by a
2 December 14th, 1979, press release, distributed to all Cal-Vet
3 district offices, the media, the Legislature, veterans organiza-
4 tions, and veterans service agencies.

5 The P-16 acknowledgment to all applicants filing on
6 or after December 10th, advised that no G.O. bond fund authority
7 to fund existed sufficient to fund those loan requests. It
8 stated that funding would depend upon further authorization by
9 passage of Proposition 2. It notifies applicants that when
10 funds become available, loans will be processed by preference
11 categories.

12 This is the acknowledgment letter that took the
13 place of the previous one, because we felt that we had to give
14 a larger explanation about the need for the additional bond
15 issue that was coming up on the ballot.

16 CHAIRMAN DILLS: That letter, that form, P-16, if
17 I can read it from here, has a date on it of March '80, but
18 you have written in January 30.

19 MS. DAYS: No, January '80.

20 CHAIRMAN DILLS: January '80, I'm sorry.

21 MS. DAYS: That's correct. This is the same letter--

22 CHAIRMAN DILLS: You had a form, January '80,
23 precisely this form?

24 MS. DAYS: That's correct, sir.

25 CHAIRMAN DILLS: And if you did have, why is it
26 necessary to have -- you sent out so many of those, that you
27 had to have it reprinted, and put on March '80?

28 MR. BACKSTROM: The major difference in the form we

1 had in January was that we only told the veterans that the
2 passage of Prop. 2 would have to pass. We didn't tell them
3 that Prop. 2 had to pass and then we had to sell the bonds.
4 When we looked at the form again in mid-February, we thought
5 that we should also say, Prop. 2 not only has to pass, but
6 you have to schedule bond sales, and get the bonds sold. We
7 did that at that time, and issued that form in March of 1980,
8 but that was the only change.

9 CHAIRMAN DILLS: Senator Greene?

10 SENATOR GREENE: On the point that the Chairman has
11 been pursuing, why did you not bring along, as part of your
12 presentation, a copy of the form which says, 1/80, as well?

13 MR. BACKSTROM: That was an oversight on our part.
14 We'll provide the committee with copies of those.

15 SENATOR GREENE: Because, you know, anybody could
16 just make a circle around a number, and write in a number.

17 MR. BACKSTROM: That's correct, sir.

18 SENATOR GREENE: I could do it myself.

19 MS. DAYS: Unfortunately, Senator, we thought it
20 would speed the process up, and simply relate the fact that
21 there was an earlier form, but we will provide you with those.

22 SENATOR GREENE: You're probably better disposed to
23 come completely prepared.

24 MS. DAYS: Okay. While the Department projected the
25 insufficiency of G.O. bond authority to cover all expected
26 demand, the Legislature did provide revenue bond funding of
27 \$500 million. Unfortunately, before we could conduct our first
28 proposed sale of the \$200 million, HR 3712, which is now HR 5741,

1 was introduced in Congress on April 25th, 1979, to eliminate
2 the tax exemption for the revenue bond mortgage bonds.

3 At the same time, Cal-Vet applications dramatically
4 increased from May 1979 through November 1979. Nevertheless,
5 we were advised that the transition rules of HR 5741 would
6 allow our sale of \$200 million in revenue bonds to proceed.
7 This was confirmed in writing by bond counsel on November 15th,
8 1979. Meanwhile, we had been granted a \$125 million bond sale
9 in August, with receipt of those funds in September, and a
10 \$150 million G.O. bond sale was scheduled for November 1979,
11 with the funds to be received December of 1979.

12 It was expected that these G.O. bond funds would
13 carry us into March 1980, when it was anticipated we would
14 have our \$200 million from the revenue bond sale. In addition,
15 statutes allow that in the event of a brief shortfall awaiting
16 sale of bonds and receipt of funds, we can draw from the
17 general fund, against pending G.O. bond sales.

18 In projecting processing, it was determined in
19 October that we could speed up the process by adding student
20 help for a swing shift in escrow, thus placing more families
21 in their homes sooner, but also depleting funds sooner. We
22 elected to follow this procedure, since we would place a large
23 number of veterans in their homes two to six weeks earlier,
24 without delaying those that followed.

25 In fact, it would help us to advance the processing
26 of those following. This was explained at the November 1979
27 Oakland hearing by Assemblyman Mori.

28 MR. BACKSTROM: The solid line represents the actual

1 escrow instructions issued between January 1st, 1979 and
2 May 9th, 1980. The middle line indicates what would have been
3 issued if we had processed escrow instructions at the rate of
4 50 a day, and the bottom line represents 45 per day. That
5 equates to about \$50 million a month, and \$45 million a month.

6 As you can see, the actual has a lapse of issuance
7 in escrow instructions between February the 7th, 1980, and
8 April the 2nd, 1980, while the others have a constant flow.
9 They all represent the same number of escrows, and the same
10 dollar totals. However, on February the 7th, 1980, at Point A
11 on the actual, we had placed 691 families into their homes
12 sooner than they would have been at Point B, and that's
13 operating at 50 per day.

14 And 1,741 families into their homes sooner than they
15 would have been at Point C, and that was at 45 per day.

16 CHAIRMAN DILLS: By doing what?

17 MR. BACKSTROM: By operating on the actual, and
18 speeding up the process which we did in November -- we began
19 in November. In addition --

20 CHAIRMAN DILLS: Why did you wait so long to do that?

21 MR. BACKSTROM: Well, we started speeding up the
22 process -- we hired additional staff in November. We started
23 actually speeding up the process in August. But by speeding
24 up the process, you start using your money faster, and you
25 just run out of money, which actually happened, we actually
26 ran out of cash between February the 7th and April the 2nd.

27 In addition, because we continued to prepare escrow
28 instructions, although we did not issue them between February

1 the 7th and April the 2nd, 1980, we did not delay those who
2 followed by having sped up the process. Instead, we were
3 able to issue 2,935 escrow instructions in the six-week period
4 by Point M through N, at a total of \$150 million.

5 Had we processed escrow instructions at 50 per day,
6 it would have taken us five weeks longer to place these
7 families in their homes, that's Point O, or 11 weeks longer,
8 at 45 per day, Point P. Furthermore, we are still processing
9 escrows daily for all veterans in the first, second, and third
10 preference category, who are ready by April the 30th, and they
11 are being placed in their homes, also, sooner.

12 Those that are ready, but are not being processed
13 through escrow, are those applications that were received
14 prior to December the 7th in the fourth preference, and some
15 third preference who were not ready to be processed as of 4-30,
16 and all veterans who applied after December the 10th. This is
17 due to the fact that when we are in a funding situation, it
18 appeared that funds will not cover all those in process, we
19 must abide by the statutory preference system.

20 The pre-12-10 applicants are covered by the 1978
21 bond act issue, and the post-12-10-79 will need the passage
22 of Prop. 2 and the eventual sale of bonds thereafter.

23 MS. DAYS: Now, we've sped up the process --

24 CHAIRMAN DILLS: Senator Greene has a question, please.

25 SENATOR GREENE: In relationship to the conscious
26 decision to speed up the process, you said that you did
27 consider that you would run out of money?

28 MS. DAYS: Sir, in making that decision --

1 SENATOR GREENE: Well, I'm asking, you did consider
2 that you would run out of money, yes or no.

3 MS. DAYS: Not exactly, because --

4 SENATOR GREENE: Well, I just heard it stated. Let
5 me ask Mr. Backstrom.

6 MS. DAYS: We did not run out of money. The thing
7 is, at the time we made the decision, the indications were
8 that we were going to get the \$200 million in bond sales in
9 March, and that we would be able to draw money from the general
10 fund to tide us over until that time that the money was
11 received. So, we knew there was going to probably be a space
12 between bond sales, but we did not feel that we did not have
13 money to loan because the indications were that we could draw
14 from the general fund.

15 SENATOR GREENE: Were you able to draw from the
16 general fund?

17 MS. DAYS: No. Unfortunately, the revenue bond sale
18 was delayed. On February 23rd, we were told that we were
19 unable to draw more than \$28 million from the general fund,
20 and so, although we had an executive order to be able to
21 draw \$80 million, we were only able to draw \$28. This was
22 because the delay in the revenue bond sale, to the end of
23 March, where we would not get the funds in until April, put us
24 into a situation where we would have a debt service falling
25 due, and if we borrowed from the general fund, it would create
26 a disclosure problem with regard to the sale of the \$200 million
27 revenue bonds, and we did not want to jeopardize that sale.

28 But that fact was not known to us until some time in

1 mid-February, and the actual decision with regard to our
2 inability to be able to draw from the general fund was made
3 on February 21st.

4 SENATOR GREENE: Did that go through on a 28.8,
5 that request?

6 MS. DAYS: Pardon me?

7 SENATOR GREENE: Did your request for the general
8 fund money --

9 MS. DAYS: On the Section 28?

10 SENATOR GREENE: Did that go through on a Section 28?

11 MS. DAYS: No, sir. There is a provision in the
12 code that indicates that if you have a bond sale authorized,
13 but the bonds have not been sold, that you can draw from the
14 general fund, by way of an executive order from the Director
15 of the Department of Finance, and repay those funds as soon
16 as the bond sale is held, and that was the procedure that we
17 used. As I say, the initial executive order was for \$80
18 million to help tide us over that period, however, because of
19 the disclosure problem, we were only able to draw \$28 million.

20 SENATOR GREENE: All right. So that means that when
21 you made your initial decision to speed up the process, and
22 when you considered your alternatives, you didn't check out to
23 see if -- or did you check out to see if there were going to
24 be any problems in being able to accomplish what you thought
25 was an alternative at that time?

26 MS. DAYS: Yes, sir. As I indicated earlier, our
27 expectations were that the \$200 million from the revenue bond
28 sale were going to be received in March, not in April.

1 Unfortunately, the market situation changed in March, we were
2 not able to sell at that -- pardon me, they changed in
3 February. We were not able to have the bond sale toward the
4 end of February, or early March, we had to wait until March
5 19th. Also, in the interim, the Oregon G.O. bond sales were
6 scheduled for March 11th, and the underwriters and financial
7 people indicated to us that our bond sales would have a better
8 chance if we came after the Oregon sales, rather than before.

9 Those factors were not known to us when the decision
10 was made to speed up the process back in September, and the
11 actual speeding up began in October. Those factors were not
12 known to us until the early part of February and in mid-
13 February when the decision was then made that we would not
14 be able to draw, and our bond sale would be held after the
15 Oregon sale, rather than before.

16 SENATOR ALQUIST: Mr. Chairman?

17 CHAIRMAN DILLS: Senator Alquist.

18 SENATOR ALQUIST: If I can get down to my major
19 concern about this whole problem, I know about your difficulty
20 in selling bonds, and not having enough bond funds available.
21 Let me read you a letter from a constituent of mine. It says:

22 "On November 19th of '79, my wife and I applied for
23 a Cal-Vet home loan of \$55,000 on a single-family home which
24 was under construction. On December 10th, we received a
25 letter dated December 7th of '79 saying that we qualified for
26 the \$55,000 loan at 5.6 percent interest. On December 10th,
27 I called Cal-Vet in Santa Clara to ask about our loan, and was
28 told that the processing would continue, and that there were

1 funds available. As a consequence, on December 11th, 1979, we
2 signed the papers selling our townhouse with its nine percent
3 loan in order to get the financing for the new home."

4 "During December, January, and up until February 17th,
5 my wife and I called Cal-Vet numerous times about various
6 matters, and each time we discussed our loan, we were always
7 told that our loan was in process, and that we would receive
8 the loan as soon as the property was appraised at its proper
9 value, and at no time were we informed that there was a Cal-Vet
10 funding problem."

11 "On February 7th of 1980, the escrow on our
12 townhouse closed, and on talking to Cal-Vet on February 18th,
13 I learned, for the first time, that they had stopped taking
14 loan applications as of December 7th. I was given to believe
15 that funding was available for all loans submitted before
16 December 7th, and on February 25th, when making arrangements
17 for the property inspection and appraisal, we were told by
18 Cal-Vet that no funds were available."

19 "The only reason we had sold our townhouse was
20 because we had qualified for a \$55,000 home loan through Cal-
21 Vet, and because we were told that financing was available.
22 Due to the fact that my wife and I cannot qualify for a loan
23 at \$55,000 at the current high interest rates, we are now
24 left without any home at all."

25 Now, I have at least three other similar letters
26 from veterans. If that had happened to a private lender,
27 there would be a great outcry from the public, I'm sure, and
28 probably will, in your case, as well, and a class action suit

1 filed against them. How could these things happen?

2 MS. DAYS: Sir, when the loan applications were
3 taken from veterans in the various offices, the veterans were
4 being told that there would be some extreme delays in
5 processing of the loans.

6 AUDIENCE: No way. No way.

7 MS. DAYS: The fact that we did run out of funds,
8 as I said before, was one that was not contemplated by the
9 department, because the factors that changed the projections
10 that we had, did not occur until the early part, middle part
11 of February, at which time, then, we realized that we would
12 not be able to do what had initially been planned, which was
13 to draw from the general fund, during the period that we were
14 waiting for the revenue bond funds, and that the revenue bond
15 funds would not be available to us until April.

16 Had that situation not occurred, as was indicated
17 earlier, we would have continued processing. However, in
18 continuing that processing, we would not have put any veterans
19 in homes sooner than what we did, in fact, the method that we
20 used put more veterans in their homes faster. The problem
21 that we ran into was the fact that we did have to initiate
22 the preference category. And when you initiate the statutory
23 preference system, then that means that the veterans who are
24 in the fourth preference, that may be ready to go, cannot, and
25 have to wait until we proceed with those in the third prefer-
26 ence category. But that's a statutory requirement that we
27 must follow.

28 SENATOR ALQUIST: Yes, but I still don't understand

1 why your administrative procedures wouldn't be -- wouldn't
2 allow you to proceed and know in advance how many loans you
3 were going to be able to process, and not mislead someone. We
4 were told by half a dozen of your district office managers
5 around here, that they, realizing that there was a flood of
6 applications coming in, more than ever before, and they felt,
7 from their own experience, and all of these people have been
8 with the department a long time, they felt that we were running
9 out of money, and that you wouldn't be able to finance these
10 loans, and yet, they were told by the administration, by
11 their supervisory personnel, that there was funding, and they
12 were not to tell the public that they were running short of
13 funds. Apparently they weren't doing it, from the letters
14 I received from my constituents.

15 MS. DAYS: Let me go to that portion that deals with
16 the communications to the district offices, perhaps that would
17 help clarify.

18 SENATOR ALQUIST: What date?

19 MS. DAYS: Pardon me?

20 SENATOR ALQUIST: What is the date of that communi-
21 cation to your district office?

22 MS. DAYS: There are several different ones,
23 Senator, some of them are going back, as I said before, to
24 1978.

25 CHAIRMAN DILLS: I don't think that the ancient
26 history of '78 is going to help us very much here.

27 MS. DAYS: Sir, with regard to '78, it is because
28 of the forms that were indicated, okay? Regarding

1 communications with the district offices, in addition to the
2 substantial completion of the Farm and Home Loan Operations
3 Manual, field office directives, and memoranda from division
4 manager are utilized to instruct district office managers and
5 staff of procedures and policies. The field office directives
6 and memoranda usually address legislative changes and policy
7 or procedure changes resulting --

8 CHAIRMAN DILLS: I'm going to have to intrerrupt
9 you because of the time constraints that are involved, and I
10 wish you would bring the matters to a head, that specifically
11 called this meeting of this committee. The letter that was
12 just read to you by Senator Alquist, and the statement that
13 he made, that -- and your response to it, that persons were
14 informed that there wouldn't be any money, and you heard what
15 the audience said "No way", and you -- I think you may have
16 been present here this morning, and I have written down some
17 of the statements of some of the persons in district offices,
18 the headquarters line, they called it, and I had a little play
19 on words, if you will recall.

20 The headquarters line was that we have money, and
21 we were verbally advised not to say that we had no money. Now,
22 I don't take it that you mean that these people are here
23 lying about what they heard, and what the line was. So, I
24 wish that you would address yourself to this matter, rather
25 than to say that they were informed, when they are saying they
26 were not informed.

27 They were told to say that there is money.

28 SENATOR MARKS: Mr. Chairman?

1 CHAIRMAN DILLS: Yes.

2 SENATOR MARKS: Mr. Chairman, I have no desire to
3 defend the department. I feel very -- I am very concerned
4 about the allegations that have been made by these -- by those
5 who have not gotten loans. But some very serious allegations
6 have been made against this department, they may be totally
7 true, all of them may be true, and I think they are entitled
8 to respond to them, and that's what they're trying to do.

9 I think they are entitled to a response, regardless
10 of whether or not we agree with that response, but they are
11 entitled to make a response to the allegations that are made.

12 SENATOR ALQUIST: That's what we're trying to get,
13 Senator Marks.

14 CHAIRMAN DILLS: That's precisely what --

15 SENATOR MARKS: No, we're not, because she was
16 reading a statement, and you said you didn't want to hear it.

17 CHAIRMAN DILLS: She was reading a statement having
18 to do with 1978. Now, 1978 isn't the month or the year, June
19 '78 is not the month or the year that is in issue here. It's
20 the year 1979, and more specifically, December of '79, and
21 that which followed subsequently from December '79, and that's
22 what I wish they would address themselves to, and not --
23 certainly they have a right to defend these things, but I think
24 we ought to defend them with timely information, and not to
25 create a kind of a filibuster here, because of the short
26 period of time in which the committee has to consider this.

27 We do -- each one of us has obligations. This is a
28 special time and place, and they could and should come prepared

1 to answer these questions and to at least, right on the nose,
2 tell us whether or not any verbal instructions were sent out
3 to the offices, the district managers, to say we still have
4 money.

5 SENATOR ALQUIST: Mr. Chairman, may I suggest that
6 there have been enough questions raised, that there should be
7 another meeting of this committee on this subject? I'm sure
8 there are a number of other witnesses here who wish to
9 testify, and there are still a number of unanswered questions
10 that I have, and I'm sure other members of the committee have
11 too.

12 CHAIRMAN DILLS: Certainly the Chair has no desire
13 to prevent them from presenting their side of the case, or
14 answering the questions that have been propounded. Now,
15 apparently, it cannot be done before 1:00 o'clock, and I
16 understand that the feeling of the witnesses, because the
17 committee, however, you would have preferred, and I can
18 understand that too, to be able to present your case without
19 interruption.

20 But we like to ask questions whenever the particular
21 matter is pertinent, and whenever it's timely. So, I'm not
22 going to limit nor restrict the members of the committee from
23 asking those questions. However, I'm still going to give an
24 opportunity to you, and to those whom you wish to speak, and
25 so it would appear that we don't have time to do that today,
26 and I don't know whether that's your fault or our fault.

27 But nonetheless, there have been a lot of people
28 from a long distance here, and they would, I'm sure, like to

1 have the answers to these questions, and perhaps they can
2 come back, particularly those who feel, and I think rightly
3 so, that they have been given a type of treatment that is not
4 particularly desirable in the State of California. So --

5 SENATOR CUSANOVICH: Mr. Chairman, I do have just
6 one question.

7 CHAIRMAN DILLS: Senator Cusanovich.

8 SENATOR CUSANOVICH: You are computerized, are you
9 not?

10 MS. DAYS: Sir, our computer system is a 1962, we're
11 in the process of putting in a new computer system. The
12 computer system does not, at the present time, hold anything
13 except the records of those who already have Cal-Vet applica-
14 tions -- pardon me, Cal-Vet loans. A newer system that we
15 have just been able to put in, as a part of our new system,
16 does have the applications in now, but that only went in in
17 March.

18 SENATOR CUSANOVICH: Well, shouldn't you be able to
19 run a cash flow on that pretty near every night?

20 MS. DAYS: On the new system, yes, sir. On the old
21 system, no. The old system only tells you the loans that you
22 already have made, they don't tell you anything about what
23 you have left.

24 SENATOR CUSANOVICH: I think I'll ask for a meeting
25 of the data processing committee I chair to find out what
26 that's about, Mr. Chairman.

27 MS. DAYS: Mr. Chairman, before we cut off here, I
28 wonder if, perhaps, Mr. Jackson can address the question that

1 was asked about what the district managers were told with
2 regard to the period of around October of '79.

3 CHAIRMAN DILLS: All right, let's hear Mr. Jackson.

4 MR. JACKSON: Mr. Chairman, and honorable members
5 of the committee, my name is Howell Jackson, I'm the attorney
6 for the Department.

7 I wanted to point out, first of all, that there
8 have been, according to my count, four individual veterans
9 here who recited detailed facts about their own particular
10 cases, and as Senator Marks has indicated, I think the
11 Department should be entitled to respond to -- even to the
12 individual allegations made by some of those veterans. We
13 did not intend to do so, because we realized that there was a
14 time problem here; we had been informed in advance of this
15 time problem.

16 As to the letter read by Senator Alquist, we would
17 like an opportunity to respond to that, too, but we cannot
18 do so unless we know the name of the individual that wrote
19 that letter, so that we can go to our files and find out
20 what the actual facts were. In any case, my main point is
21 that I think Mr. Jack Keppel, one of our district managers
22 who was up here, probably testified most accurately.

23 According to my notes, he said what they were really
24 told was that there wouldn't be any problems if certain things
25 happened. As I recall, Mr. Keppel testified that he even
26 hedged his own answers to the veterans. Now, he was talking
27 about an October meeting that the Director had with the
28 district managers, and according to the minutes of that

1 meeting, I'll read only a very short paragraph, Ms. Days gave
2 an overview of the Department's bonding problems.

3 If we continue lending at the present rate, the
4 money from the November bond sale which was recently
5 authorized by the veterans finance committee, in the amount
6 of \$150 million, will last until March 1, 1980, when it may
7 be necessary to borrow from the general fund in order to pay
8 debt service. It may be necessary to go on a preference
9 system in lending.

10 Continuation of lending at the present rate will
11 depend on our ability to sell revenue bonds. Also, the new
12 positions, and the budget change proposal depend on our
13 ability to sell revenue bonds, and continue funding at least
14 at the present rate. Now, that is a summary from the minutes
15 of that meeting, and as I indicated, Mr. Keppel testified
16 that what the district managers were actually told was that
17 there shouldn't be any problem if certain things happened.
18 I just wanted to make that point.

19 CHAIRMAN DILLS: Yes, I have that, and I also have
20 this: After December, Mr. Keppel said, after December 10,
21 the applicant was told "Sacramento says there is money." You
22 will find that in his testimony, because I wrote it down
23 verbatim.

24 MS. DAYS: Yes, sir, and if I can indicate again,
25 that the -- if the -- if we could show again the letter that
26 went out on December 14th, it was a news release, and it was
27 issued to everyone, including the district offices, but we
28 wanted to get the broadest possible audience, and that

1 indicated that we would go on the commitment to purchase,
2 beginning December 10th, and it would be on the preference
3 system that those who had their applications in prior to
4 December 7th, could be covered by the bonding authority that
5 we had from the 1978 act, but anyone else would have to
6 depend upon future authorization, which is on the ballot
7 presently.

8 CHAIRMAN DILLS: Now, your own news release, and
9 reading it, if I can, from here, it says, "Effective Monday,
10 December 10, 1979, she said the Division of Farm and Home
11 Purchases began issuing commitment to purchase letters." Now,
12 if that doesn't mean that they're going to the ordinary
13 civilian -- to me, it means you're going to issue commitments
14 to purchase letters conditioned on the availability of
15 sufficient funds, and based on a preference category.

16 MS. DAYS: Yes, sir.

17 CHAIRMAN DILLS: Ms. Days said, it appears there is
18 sufficient bond authorization to fund those applications
19 filed before December 13. Now, what --

20 MS. DAYS: Before December 7th.

21 CHAIRMAN DILLS: Now, what are people supposed to
22 believe whenever you say you're going to issue commitment
23 letters, and that it appears there is sufficient bond
24 authorization to fund these.

25 MS. DAYS: That is correct, sir. The authorization
26 is there. Those people who filed before December 7th will
27 get funding, the thing is that it's subject to the availability
28 of the funds. Availability of the funds depends upon the time

1 in which you can get the bonds sold.

2 CHAIRMAN DILLS: And so the applicant, after
3 December 10, and after this news release went out, was this
4 the only memo that you sent to the district offices, a news
5 release?

6 MS. DAYS: No, sir. Then we sent -- there was a
7 Cal-Vet-gram that went out in February that explained the
8 position a little more, with regard to our inability to draw
9 more than the \$28 million from the general fund, and then in
10 February, there were the new forms that went out to take the
11 place of the old commitment letters, and the old acknowledgment
12 letters, and that you saw a little earlier.

13 CHAIRMAN DILLS: That went out in February.

14 MS. DAYS: That's correct, sir.

15 CHAIRMAN DILLS: And people are still out there
16 thinking all along that there is money available, because as
17 Mr. Keppel says, Sacramento says there's money.

18 MS. DAYS: Again, sir, this went out when we
19 discovered that we would not be able to draw on the general
20 fund to the \$80 million which had previously been authorized,
21 and that we would have to wait until we received the \$200
22 million from the revenue bond sale before we could proceed
23 with processing.

24 CHAIRMAN DILLS: It would appear then, that it may
25 be necessary to have another hearing. Those who are familiar
26 with the timing of the legislative process are aware of the
27 fact that the Legislature is in the final throws of getting
28 the bills out of their respective committees. We're working --

1 we worked all day yesterday, we'll work tonight, we'll work
2 all day tomorrow, and how much time there will be for this
3 committee to have another hearing, I cannot at this time say.

4 But I am about to recess this hearing until a
5 subsequent one, if that one is deemed desirable or necessary
6 on the part of the members of this committee, and I'll put it
7 to them for a vote.

8 MS. DAYS: Mr. Chairman, would you want us to
9 submit to you the written statements, even though we've not
10 completed it?

11 CHAIRMAN DILLS: Yes.

12 MS. DAYS: Thank you.

13 CHAIRMAN DILLS: That ought to be made a part of
14 the record, and we would appreciate those documents that you
15 indicated that you have, that were not available to us today.

16 MS. DAYS: Yes, sir, the P-15 of 1976, and the P-16
17 of January '80.

18 CHAIRMAN DILLS: Yes, thank you.

19 MR. JACKSON: Mr. Chairman, would the committee be
20 interested in going into the details of these individual
21 cases which have been recited here today? We can -- at the
22 subsequent hearing.

23 CHAIRMAN DILLS: I think you should be prepared,
24 should we have such a meeting, to do exactly that, if the
25 committee decides that's what it wishes.

26 MR. JACKSON: Thank you.

27 CHAIRMAN DILLS: Thank you. The committee is in
28 recess.

(Hearing adjourned.)

APPENDIX A

Senate Resolution

No. 35

Introduced by Senators Nielsen, Alquist, Ayala, Beverly, Briggs, Campbell, Carpenter, Craven, Cusanovich, Garamendi, Alex Garcia, Marz Garcia, Greene, Holmdahl, Johnson, Keene, Maddy, Montoya, Nejedly, Nimmo, Petris, Presley, Rains, Richardson, Robbins, Roberti, Rodda, Russell, Schmitz, Sieroty, Speraw, Stiern, Vuich, Watson, and Wilson

March 25, 1980

Senate Resolution No. 35—Relative to Cal-Vet loan funding.

1 WHEREAS, Various comments and allegations have
 2 been made with respect to the problems presently
 3 surrounding the Cal-Vet loan program; and
 4 WHEREAS, Great concern has been expressed
 5 regarding the administration of the Department of
 6 Veterans Affairs and its ability to serve the needs of the
 7 California veteran population; and
 8 WHEREAS, It is of the utmost importance to the
 9 people of the State of California that these matters be
 10 investigated and that any existing problems be solved at
 11 the earliest possible time; now, therefore, be it
 12 *Resolved by the Senate of the State of California*, That
 13 the Senate Committee on Rules is hereby requested to
 14 assign to an appropriate committee for study the subject
 15 of the Cal-Vet loan program and the administration of the
 16 Department of Veterans Affairs; and be it further
 17 *Resolved*, That such committee report its findings and
 18 recommendations to the Senate on the date specified by
 19 the Rules Committee upon assignment of this resolution.

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APPENDIX B

- ☒ Sacramento Address:
State Capitol
95814
(916) 445-3353
- ☐ District Office Addresses:
415 Main Street
Woodland, CA 95695
(916) 662-7315
- ☐ 832 Brown Street
Napa, CA 94558
(707) 253-7212
- ☐ 2300 County Center Drive
Suite 158
Santa Rosa, CA 95401
(707) 523-1502

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State Senator
Jim Nielsen

Fourth District
Napa, Sacramento, Solano, Sonoma, and Yolo Counties



COMMITTEES
Agriculture and Water Resources
Education
Natural Resources and Wildlife
Revenue and Taxation
Joint Committee on
Fairs Allocation and
Classification
Vice Chairman of
Senate Rural Caucus
Capitol Area Committee

May 7, 1980

TO: Senator Ralph Dills, Chairman
Governmental Organization Committee
Room 5046, State Capitol

FROM: Jim Nielsen

SUBJECT: SR 35 - Cal-Vet Investigation

I have been asked to clarify the reasons for which the hearing has been requested. You are already aware of the funds shortage which has been experienced over the last 6-8 months. Unlike previous shortfalls, there have been serious and prolonged economic losses suffered by a substantial number of veterans.

The specific cause of the economic consequence lies in the fact that Department of Veterans Affairs representatives provided no information about possible delays to the individual applicants. At all times from about October 2, 1979 through February 23, 1980, veterans were told that there was no problem, that funds were available, and that they could go ahead with the proposed home purchases.

The purpose of taking testimony, then, is to develop the general line of representations made to both the veterans and/or their real estate agents.

Thereafter, testimony of staff will demonstrate that Virginia Days, Director of Veterans Affairs, knew or should have known of the financial shortfall and knowingly enforced a policy of misrepresentation.

Senator Ralph Dills

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May 7, 1980

While it is felt that this alone should be sufficient to determine that corrective action is required, it is a fact that the current Director has been apprised of the weakness of the Department in cash forecasting (Joint Audit Committee Reports #P847.1 dated January 19, 1979 and #279 dated June 9, 1976). It should be noted that the Director responded to the most current report by indicating that the Department would implement a computerized forecasting package (Foresight) within ninety days; a promise that has yet to be fulfilled.

Finally, the Director promised to produce a Cal-Vet Loan Operations Manual which would "solve" administrative weaknesses identified by the Auditor General (P847.1).

That manual, to the best of our knowledge, fails to create an ordered and predictable system for processing of loans. (Case in point -- veterans receive P-11's and P-15's in different order and along different time lines for no apparent reason, and these forms have been the criteria for establishing processing eligibility.) Additionally, the manual fails to address the processing of applications with regard to the Preference Group System, a situation causing substantial concern for all parties involved.

In summary, we feel that testimony will preclude any doubt of the seriousness of administrative weakness. These weaknesses have been pointed out with more than adequate time for necessary remediation. The ultimate question for the Committee then is how best to proceed to carry out the Legislative intent to provide a meaningful program for our veterans.

I believe that we have at least the following alternatives:

- 1) Request that the Governor replace the current director.
- 2) Request the Attorney General to determine if an action would lie to remove the current director.
- 3) ~~Establish a Select Committee to make specific legislative remedies (or seek to establish a Joint Committee with the Assembly Committee on Veterans Affairs.~~

Senator Ralph Dills

-3-

May 7, 1980

- 4) Ask this Committee to study the problem(s) and propose specific legislation.
- 5) Eliminate the Home Loan program or shift it to a more competent agency.

I respectfully seek the guidance of the Committee in providing the best direction to proceed in keeping with a most sincere effort to assure a meaningful and worthwhile program for our veterans.

cc: Committee Members
Lindsay W. Miller, Consultant

APPENDIX C

STATEMENT TO BE GIVEN BEFORE HEARING ON SENATE RESOLUTION No. 35

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE:

I AM VIRGINIA MAE DAYS, DIRECTOR, DEPARTMENT OF VETERANS AFFAIRS. IN THE INTERESTS OF TIME, I WILL MAKE A SUMMARY STATEMENT WHICH WILL ANSWER SENATOR NIELSEN'S LETTER OF MAY 7, 1980, TO SENATOR DILLS, AND WILL BRIEFLY ADDRESS THE PROGRAM AS THE DEPARTMENT STAFF PRESENTS GRAPHIC DETAIL.

I APPRECIATE THE OPPORTUNITY TO APPEAR AND ADDRESS THE CONCERNS OF THE COMMITTEE WITH REGARD TO THE CAL-VET LOAN PROGRAM. BECAUSE THIS COMMITTEE REVIEWS LEGISLATIVE AND BUDGET MATTERS RELATING TO THE PROGRAM, WE BELIEVE IT IS IMPORTANT FOR YOU TO BE AWARE OF THE PROBLEMS WE HAVE ENCOUNTERED, THE IMPROVEMENTS WE HAVE MADE, AND THE WAY WE HAVE COPEDED WITH THE SUBSTANTIAL INCREASE IN DEMAND. FIRST, HOWEVER, LET ME BRIEFLY REVIEW WHAT WE HAVE ACCOMPLISHED IN TERMS OF LOAN FUNDING THE PAST 5 YEARS COMPARED TO THE PREVIOUS 5 YEARS.

IN 1975-79 WE MADE 43,357 LOANS FOR A TOTAL OF \$1.5 BILLION PARTLY FUNDED BY BOND SALES OF \$1.3 BILLION, WHEREAS IN 1970-74 WE MADE 29,092 LOANS FOR A TOTAL OF \$563 MILLION PARTLY FUNDED BY BOND SALES OF \$550 MILLION.

IT IS TRUE THAT THE CURRENT SITUATION DIFFERS FROM ANY PAST EXPERIENCE OF THE DEPARTMENT. ALTHOUGH THE 1969 PROBLEMS RESULTING FROM THE STRICT INTEREST PROVISIONS FOR SALE OF STATE G.O.'S WERE

SIMILAR TO WHAT WE NOW FACE, THE INTEREST RATE DIFFERENTIAL BETWEEN CONVENTIONAL INTEREST RATES AND CAL-VET INTEREST RATES WAS NOT AS EXTREME AS IT IS TODAY, AND TODAY IS NOT AS EXTREME AS IT WAS IN FEBRUARY AND MARCH 1980.

IN ADDITION, THE UNPRECEDENTED DEMAND OVER THE LAST YEAR DUE TO STATUTORY CHANGES AND THE LACK OF FUNDING ALTERNATIVES FOR VETERANS IN THE PRIVATE SECTOR DID NOT EXIST IN 1969.

IT WAS NOT A MATTER OF MISREPRESENTATION TO VETERANS BUT THE FACT THAT WE AND THE REST OF THE FINANCIAL COMMUNITY HAD NO REASON TO BELIEVE IN OCTOBER 1979, NOVEMBER 1979, DECEMBER 1979 OR MID-JANUARY 1980 THAT OUR G.O.'S WOULD NOT SELL BELOW 7%, THAT OUR REVENUE BOND SALE WOULD BE DELAYED BY THE OREGON VETERANS G.O. BOND SALE AND THAT WE WOULD NOT BE ABLE TO DRAW UP TO \$125 MILLION FROM THE GENERAL FUND AGAINST OUR G.O. BOND AUTHORITY. THROUGH THE USE OF THE MEDIA AND OUR OWN PUBLICATIONS, SOME OF WHICH YOU'RE SEEING, WE ATTEMPTED TO KEEP THE GENERAL PUBLIC, LEGISLATORS, VETERANS ORGANIZATIONS AND VETERAN SERVICE AGENCIES INFORMED OF THE INCREASED DEMAND AND FUNDING PROBLEMS. WE HAD NO MEANS OF COMMUNICATING WITH APPLICANTS WHOSE LOANS WERE BETWEEN PROCESSING STAGES EXCEPT TO HAVE HAD DISTRICT OFFICE STAFF STOP OTHER WORK TO SIT DOWN AND WRITE OR CALL EACH ONE.

THEREFORE, IN JUNE 1978, WE INSTRUCTED OUR DISTRICT OFFICES TO BE SURE THAT FORMS GIVEN TO APPLICANTS FOR CAL-VET LOANS WERE STAMPED "SUBJECT TO AVAILABILITY OF FUNDS." THIS INSTRUCTION IS STILL IN FORCE. WITH REGARD TO PARTICULAR FORMS ISSUED TO VETERAN APPLICANTS AS THEIR LOANS REACH CERTAIN PROCESSING STAGES:

1. THE P-14 RELATING TO APPROVAL OF HOMESITES IN CONSTRUCTION CASES SPECIFICALLY STATES:

"IF YOUR SINGLE-FAMILY DWELLING IS CONSTRUCTED AND COMPLETED WITHIN A TWELVE (12) MONTH PERIOD FROM DATE OF THIS APPROVAL ON THE APPROVED SITE, A FINAL APPRAISAL WILL BE SCHEDULED. A FINAL LOAN RECOMMENDATION WILL BE MADE AND IF ADEQUATE LOAN FUNDS ARE AVAILABLE, YOUR CAL-VET LOAN WILL BE PROCESSED AND FUNDED. IF LOAN FUNDS ARE IN SHORT SUPPLY, A COMMITMENT LETTER WILL BE ISSUED FOR FUTURE FUNDING."

2. FOLLOWING APPRAISAL OF THE PROPERTY TO BE PURCHASED, THE "COMMITMENT TO PURCHASE LETTER" (UNNUMBERED FORM FOD 78-24FH, JUNE 30, 1978) AND THE REDESIGNED "COMMITMENT TO PURCHASE LETTER," P-15 (1/80) FORMERLY ENTITLED "ACKNOWLEDGMENT OF CAL-VET LOAN APPLICATION," CLEARLY INDICATED IT WAS CONDITIONED ON AVAILABILITY OF FUNDS AND PREFERENCE CATEGORY. IT ALSO STATED THAT THE VETERAN MAY OBTAIN FINANCING FROM ANOTHER SOURCE WITHOUT DISQUALIFYING THE CAL-VET APPLICANT SHOULD FUNDS BECOME AVAILABLE IN THE FUTURE.

AS OF DECEMBER 10, 1979, THIS FORM WAS TO BE USED INSTEAD OF THE P-11, "APPLICATION TO PURCHASE," ONCE APPRAISALS WERE COMPLETED. THIS WAS ANNOUNCED BY A DECEMBER 14, 1979, PRESS RELEASE DISTRIBUTED TO ALL CAL-VET DISTRICT OFFICES, THE MEDIA, THE LEGISLATURE, VETERANS ORGANIZATIONS, AND VETERAN SERVICES AGENCIES.

3. THE P-16 (1/80) "ACKNOWLEDGMENT" TO ALL APPLICANTS FILING ON OR AFTER DECEMBER 10, 1979, ADVISED THAT NO G.O. BOND AUTHORITY TO FUND EXISTED SUFFICIENT TO FUND THOSE LOAN REQUESTS. IT STATED THAT FUNDING WOULD DEPEND UPON FURTHER AUTHORIZATION BY PASSAGE OF PROPOSITION 2. IT NOTIFIES APPLICANTS THAT WHEN FUNDS BECOME AVAILABLE, LOANS WILL BE PROCESSED BY PREFERENCE CATEGORIES.

WHILE THE DEPARTMENT PROJECTED THE INSUFFICIENCY OF G.O. BOND AUTHORITY TO COVER ALL EXPECTED DEMAND, THE LEGISLATURE DID PROVIDE REVENUE BOND FUNDING OF \$500 MILLION. UNFORTUNATELY, BEFORE WE COULD CONDUCT OUR FIRST PROPOSED SALE OF \$200 MILLION, HR 3712 (NOW HR 5741) WAS INTRODUCED IN CONGRESS ON APRIL 25, 1979, TO ELIMINATE THE TAX EXEMPTION FOR REVENUE MORTGAGE BONDS. AT THE SAME TIME, CAL-VET APPLICATIONS DRAMATICALLY INCREASED FROM MAY 1979 THROUGH NOVEMBER 1979. NEVERTHELESS, WE WERE ADVISED THAT THE TRANSITION RULES OF HR 5741 WOULD ALLOW OUR SALE OF \$200 MILLION IN REVENUE BONDS TO PROCEED. THIS WAS CONFIRMED IN WRITING BY BOND COUNSEL ON NOVEMBER 15, 1979. MEANWHILE, WE HAD BEEN GRANTED A \$125 MILLION G.O. BOND SALE IN AUGUST WITH RECEIPT OF THOSE FUNDS IN SEPTEMBER 1979 AND A \$150 MILLION G.O. BOND SALE WAS SCHEDULED FOR NOVEMBER 1979 TO BE RECEIVED IN DECEMBER 1979. IT WAS EXPECTED THAT THESE G.O. BOND FUNDS WOULD CARRY US INTO MARCH 1980 WHEN IT WAS ANTICIPATED WE WOULD HAVE OUR \$200 MILLION FROM THE REVENUE BOND SALE. IN ADDITION, STATUTES ALLOW THAT IN THE EVENT OF A BRIEF SHORTFALL AWAITING SALE OF BONDS AND RECEIPT OF FUNDS, WE CAN DRAW FROM THE GENERAL FUND AGAINST PENDING G.O. BOND SALES.

IN PROJECTING APPLICATION PROCESSING, IT WAS DETERMINED IN OCTOBER THAT WE COULD SPEED UP THE PROCESSING BY ADDING STUDENT HELP FOR A SWING SHIFT IN ESCROW, THUS PLACING MORE FAMILIES IN THEIR HOMES SOONER BUT ALSO DEPLETING FUNDS FASTER. WE ELECTED TO FOLLOW THIS PROCEDURE SINCE WE WOULD PLACE A LARGE NUMBER OF VETERANS IN THEIR HOMES 2-6 WEEKS EARLIER, WITHOUT DELAYING THOSE WHO FOLLOW. IN FACT, IT WOULD HELP US TO ADVANCE THE PROCESSING OF THOSE FOLLOWING. THIS WAS EXPLAINED AT THE NOVEMBER 1979 OAKLAND HEARING HELD BY ASSEMBLYMAN MORI.

(P A U S E)

UNFORTUNATELY, WHEN THE REVENUE BOND SALE WAS DELAYED AND WE FOUND ON FEBRUARY 23, 1980, THAT WE WOULD BE UNABLE TO DRAW MORE THAN \$28 MILLION FROM THE GENERAL FUND, THE \$80 MILLION EXECUTIVE ORDER WE HAD RECEIVED FROM DEPARTMENT OF FINANCE WAS MODIFIED TO THE LOWER AMOUNT. MANY SELLERS AND APPLICANTS DID NOT UNDERSTAND, SO WE ATTEMPTED TO EXPLAIN THE SITUATION BY OUR CAL-VET GRAM OF FEBRUARY 20, 1980. SUFFICIENT EXTRA COPIES WERE ORDERED AND SENT TO DISTRICT OFFICES TO BE DISTRIBUTED TO APPLICANTS AND OTHERS MAKING INQUIRIES.

ALTHOUGH ON FEBRUARY 7, 1980, WE TERMINATED THE FORWARDING OF FILES FROM DISTRICT OFFICES TO SACRAMENTO HEADQUARTERS, WE NEVERTHELESS CONTINUED PREPARING ESCROW INSTRUCTIONS TO BE PREPARED TO SEND THEM OUT IMMEDIATELY UPON RECEIPT OF FUNDS. IN THAT WAY, WHEN WE FINALLY RECEIVED THE REVENUE BOND FUNDS, WE WERE ABLE TO ISSUE 2,935 ESCROW INSTRUCTIONS FOR \$150.5 MILLION IN JUST 6 WEEKS, PLACING MANY FAMILIES IN THEIR HOMES FASTER THAN IF WE HAD JUST CONTINUED AT 45-50 APPLICATIONS

PER DAY TO MAINTAIN A STEADY FLOW OF LOAN PROCESSING AND FUNDING.

WITH REGARD TO THE NEED FOR A COMPUTERIZED CASH FLOW PROJECTION, THAT WAS ACCOMPLISHED BY THE IMPLEMENTATION OF FORESIGHT IN OCTOBER 1979. THAT IS NOT, AND WAS NOT INTENDED TO BE, AN ECONOMIC FORECASTING SYSTEM TO PROJECT BOND SALE CAPABILITY BUT ONLY A CASH FLOW PROJECTION TO DETERMINE BOND SALE NEED. THE PROJECTIONS CAN BE SUBSTANTIALLY ALTERED BY EXTRAORDINARY CHANGES IN THE MARKET PLACE SUCH AS OCCURRED IN FEBRUARY, MARCH, AND APRIL OF 1980. IN ADDITION, IT WAS ORIGINALLY DESIGNED FOR G.O. BOND FUNDS AND HAD TO BE MODIFIED TO INCLUDE THE VARIOUS FACTORS REQUIRED BY THE MARCH 19, 1980, REVENUE BOND RESOLUTION. THAT MODIFICATION IS NOW COMPLETE AND RUNS ON THE OPERATIONS CASH FLOW PROJECTIONS AND BOND MONEYS -- LOAN ISSUES PROJECTIONS WERE MADE APRIL 28 AND APRIL 30, 1980, RESPECTIVELY.

THAT, HOWEVER, IS ONLY A PART OF THE FINANCIAL MANAGEMENT PLANNING INITIATED IN THE PAST 3 YEARS. WE ALSO STUDIED THE NEED FOR REPLACEMENT OF THE OUTDATED 1962 DATA PROCESSING SYSTEM. THAT REVIEW RESULTED IN THE FMIS (FINANCIAL MANAGEMENT INFORMATION SYSTEM) FEASIBILITY STUDY IN 1973 AND IN APRIL 1979 THE APPROVAL TO MOVE AHEAD WITH IMPLEMENTATION OF THAT SYSTEM.

AS A RESULT OF THAT APPROVAL AND AS AN INITIAL INTERIM PHASING IN OF THE NEW SYSTEM, WE WERE ABLE TO OBTAIN ADDITIONAL COMPUTER HARDWARE (FOUR-PHASE) INSTALLED IN MARCH 1980. FURTHER THROUGH THE USE OF A PRIVATE SECTOR SYSTEM (TYMSHARE) WE IMPLEMENTED A METHOD OF TRACKING LOAN APPLICATIONS IN PROCESS ON A STATEWIDE BASIS. AS OF APRIL 30, 1980, L PRE-DECEMBER 10, 1979, AND POST-DECEMBER 10, 1979,

APPLICANTS' DATA WAS CAPTURED AND VERIFIED. THIS PROVIDED, FOR THE FIRST TIME IN THE HISTORY OF THE PROGRAM, A MECHANISM TO COMMUNICATE WITH INDIVIDUAL APPLICANTS WHOSE LOANS ARE BEING PROCESSED. THE FIRST LETTER FROM THAT SYSTEM WAS PRODUCED ON MAY 12, 1980.

REGARDING TO COMMUNICATIONS WITH DISTRICT OFFICES, IN ADDITION TO THE SUBSTANTIAL COMPLETION OF THE FARM AND HOME LOAN OPERATIONS MANUAL, FIELD OFFICE DIRECTIVES (FOD'S) AND MEMORANDA FROM THE DIVISION MANAGER ARE UTILIZED TO INSTRUCT DISTRICT OFFICE MANAGERS AND STAFF OF PROCEDURES AND POLICIES. THE FOD'S AND MEMORANDA USUALLY ADDRESS LEGISLATIVE CHANGES AND POLICY OR PROCEDURE CHANGES RESULTING FROM EMERGENCY OR EXTRAORDINARY CIRCUMSTANCES. THE FOD'S AND MEMORANDA INSTRUCTIONS WERE UTILIZED IN DEVELOPING THE ISSUANCE OF COMMITMENT TO PURCHASE LETTERS AND ACKNOWLEDGMENT LETTERS USED DURING THE LOAN FUNDING PROBLEMS CREATED WHEN BONDS COULD NOT BE SOLD AFTER PASSAGE OF PROPOSITION 13 IN JUNE 1978 AND RECENTLY WHEN THE NEW COMMITMENT TO PURCHASE LETTER WAS DEVELOPED IN JANUARY 1980 FOLLOWING THE DECEMBER 14, 1979, PRESS RELEASE REGARDING USE OF COMMITMENT TO PURCHASE LETTERS AND VETERANS PREFERENCE. DISTRICT OFFICES ALSO RECEIVE PRESS RELEASES, CAL-VET NEWS ISSUES, AND CAL-VET GRAMS TO ADVISE THEM IN RELATING FACTS ABOUT THE PROGRAM TO THE VETERAN PUBLIC, REALTORS, AND THEIR LOCAL PRESS.

THE ADMINISTRATION OF THIS PROGRAM HAS BEEN EXCELLENT DESPITE ITS OUTDATED DATA PROCESSING SYSTEM, ITS BOND FUNDING SUBJECT TO THE VAGARIES OF THE MARKET, THE LEGISLATIVE EXPANSIONS OF THE PROGRAM, ITS IMMEDIATE FUNDING CAPABILITY, AND A STATE BUDGETING SYSTEM WHICH

DOES NOT ALLOW FOR TIMELY, ADEQUATE STAFFING NEEDED TO ADDRESS INCREASED DEMAND IN A REASONABLE PROCESSING TIME. RECENT REVIEWS OF OUR PROGRAM BY THE BOND RATING SERVICES, AND BY THE BOND UNDERWRITERS INDICATE THAT WE HAVE MADE SIGNIFICANT STRIDES IN IMPROVING MANAGEMENT OF THE CAL-VET PROGRAM. DESPITE THE UNPRECEDENTED INCREASE IN LOAN APPLICATIONS, THE NUMBER OF APPLICATIONS PER FIELD STAFF MEMBER IS HIGHER NOW THAN AT ANY TIME IN THE PAST TEN YEARS.

WHILE IT MAY BE TRUE THAT THE PRIVATE SECTOR CAN PROCESS LOANS FASTER WITH THEIR GREATER PERSONNEL RESOURCES, THE PRIVATE SECTOR COSTS OF RUNNING THE PROGRAM WOULD ALSO HAVE BEEN GREATER. THERE HAVE BEEN DELAYS CAUSED BY FINANCIAL MARKET FORCES AND STATUTORY CHANGES AS WELL AS THE INCREASED DEMAND RESULTING FROM THE WIDENING DIFFERENTIAL BETWEEN OUR LOW INTEREST RATE AND THOSE IN THE PRIVATE SECTOR. THESE DELAYS MAY HAVE CAUSED SOME HARDSHIPS TO SOME VETERANS AND SELLERS, BUT WE HAVE WORKED HARD TO REDUCE THE DELAYS AND PLACE PEOPLE IN THEIR HOMES FASTER. SOMETIMES THIS MAY HAVE BEEN DONE AT THE EXPENSE OF PROCESSING LOANS RATHER THAN RESPONDING IMMEDIATELY TO A MULTITUDE OF INQUIRIES ON FACTORS THAT CHANGE DAILY. THERE SHOULD BE NO QUESTION, HOWEVER, THAT CALIFORNIA VETERANS ARE GETTING A BARGAIN FROM THEIR BENEFIT AND THEY ARE ALSO GETTING GOOD SERVICE DESPITE THE ADVERSE CIRCUMSTANCES IN WHICH WE FIND OUR FUNDING SITUATION TODAY. THE PROGRAM IS SO POPULAR DESPITE ITS DELAYS THAT OVER 5,000 VETERANS FILED AFTER DECEMBER 10, 1979, AND ARE WAITING FOR THE NEW AUTHORIZATION. EVEN IF ALL REMAINING REVENUE BOND AUTHORIZATION AND THE PENDING \$750 MILLION BOND BALLOT ISSUE WERE SOLD, IT WOULD NOT SATISFY EXPECTED DEMAND AND MANY APPLICANTS WOULD REMAIN UNFUNDED UNLESS ADDITIONAL REVENUE BOND FUND IS AUTHORIZED AND CAN BE SOLD.

FINALLY, IT SHOULD BE NOTED THAT IN 1978 WE DID IMMEDIATELY PROCEED WITH THE STEPS NECESSARY TO SELL REVENUE BONDS. IN 1978, WE SELECTED BOND COUNSEL AND THE SENIOR MANAGER SMITH BARNEY, HARRIS UPHAM & CO. AND BEGAN PLANS FOR A \$200 MILLION SALE FOR THE SPRING OF 1979. WHILE LEGISLATION TO COMBINE THE FUNDS TO HAVE ONE INTEREST RATE FOR VETERANS WAS BEING DECIDED, ON APRIL 25, 1979, CONGRESSMAN ULLMAN INTRODUCED THE LEGISLATION TO ELIMINATE THE INCOME TAX EXEMPTION ON REVENUE BOND FINANCING FOR SINGLE FAMILY HOUSING.

AS SOON AS THE TRANSITION RULES WERE FIRMED IN THE HOUSE WAYS AND MEANS COMMITTEE, WE MOVED TO HAVE OUR SALE APPROVED. BECAUSE WE HAD FOLLOWED THROUGH WITH THE OFFICIAL ACTION IN 1973, WE WERE ABLE TO CONDUCT A SUCCESSFUL \$200 MILLION REVENUE BOND SALE WHICH BROUGHT US THROUGH A CRITICAL MARKET PERIOD IN WHICH WE COULD NOT HAVE SOLD G.O. BONDS. OUR PROGRAM RECEIVED A AA RATING FROM MOODY'S AND AN AA RATING FROM STANDARD AND POORS. THIS WAS DUE TO OUR MANAGEMENT CAPABILITY AND PROCEDURES AS WELL AS THE SECURITY OF THE PROGRAM.

THANK YOU. WE WOULD BE HAPPY TO ANSWER QUESTIONS THE COMMITTEE MAY HAVE.

APPENDIX D

DEAN WITTER REYNOLDS INC.
45 Montgomery Street, P.O. Box 7597, San Francisco, Ca 94120
Telephone (415) 392-7200



May 9, 1980

Senator Ralph C. Dills, Chairman
Senate Governmental Organization Committee
State Capital
Sacramento, CA 95814

Dear Senator Dills:

As a managing underwriter for the California Department of Veterans Affairs \$200,000,000 Home Purchase Revenue Bonds, Dean Witter Reynolds has had the opportunity to become well acquainted with the Department's Farm and Home Purchase Program. Based on that experience, I can state unequivocally that the Cal-Vet program is one of the most financially secure housing finance programs provided by any state agency in the country. As a result of that financial security, widely acknowledged in the bond market community, the Department has been able to continue to provide extremely low rates of interest to California's veterans in financing their homes.

Both the high ratings on the Department's revenue bonds and the interest rates they received attest to the financial well-being of the Cal-Vet program. The Department's revenue bonds enjoy a "Aa" rating from Moody's Investors Service, the same as the State's general obligation bonds, and a "AA" rating from Standard & Poor's Corporation, just half a rating less than the "AA+" rating on the State's general obligation bonds. This high quality rating was translated into advantageous interest rates when the Department offered its initial revenue bond issue in the market. The Department received a rate of 10% at a price of 100 1/2 (a yield of about 9.95%) on its long-term bonds at the same time that the Delaware State Housing authority received a 10 3/8% rate on its long-term bonds, rated "Aa/A+". The Department realized a relative savings of better than .4% over the Delaware issue.

Ultimately, the test of the Cal-Vet Program's strength lies in its ability to provide financing for veterans' purchases of homes. The Department's performance in this regard must take into account the severe problems that all housing finance programs have faced: pending federal legislation limiting the issuance of housing revenue bonds and record high interest rates in the tax-exempt bond market. In many instances, state housing agencies have had to stop their housing financing

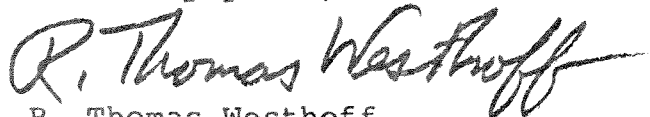
Senator Ralph C. Dills, Chairman
May 9, 1980
Page 2 . . .

program altogether or increase rates on their mortgage loans substantially. Although the Cal-Vet program suffered a brief hiatus, the Department's ability to resume providing financing at the same rates (in spite of an interest cost of almost 10% on its revenue bonds) is testimony to the program's sound management. Given the unprecedented difficulties the Department has had to face in the bond market, its performance, compared to similar agencies in the same difficult situation, has been excellent.

The Department's success in its first revenue bond issue was due in large part to the efforts of the individuals who guided it to market. The Department's Director, Virginia Mae Days, and the Chief Deputy State Treasurer, Grover McKean, worked very hard in helping to structure and market those securities. In a series of information meetings in financial centers across the country, both of them presented information concerning the Cal-Vet program and the State of California's financial condition to underwriters and investors. In those meetings, Ms. Days' mastery of the details of the Cal-Vet program left a strongly favorable impression on her audiences. Mr. McKean's active role made it obvious to the financial community that the State Treasurer also was making sure that the Cal-Vet program continued to be financially sound.

As a managing underwriter, we have a responsibility to our investing clients and our stockholders to investigate the management and finances of those issuers whose securities we underwrite. In the case of the California Department of Veterans Affairs, we have found management that is informed, responsible and responsive; financially, the Cal-Vet program is one of the strongest programs of its type that we have ever seen. It has been a pleasure for us to work with the Department.

Sincerely yours,



R. Thomas Westhoff
First Vice President
Public Finance Department

RTW/kks

cc: Senator Alfred E. Alquist
Senator Robert G. Beverly
Senator Paul B. Carpenter
Senator Louis Cusanovich
Ms. Virginia Mae Days

Senator John F. Foran
Senator William Greene
Senator Milton Marks
Mr. Grover McKean
Senator Robert Nimmo

APPENDIX E

State of California
Department of Veterans Affairs
DIVISION OF FARM AND HOME PURCHASES

APPLICATION TO PURCHASE

Date: _____

To: _____

I request the Department of Veterans Affairs to purchase for resale to me the real property locally known as:

_____, CA _____, and as legally described in the Preliminary Report of Title submitted by me.

Escrow and instructions in connection with this transaction will be issued to:

NAME	ADDRESS	ESCROW NO.
A. Full purchase price of property:		\$ _____
B. The amount I have paid or will pay through escrow:		\$ _____
C. Loan amount to be escrowed by the Department:		\$ _____
D. The monthly installment of \$ _____ includes tax amount of \$ _____, and insurance		
(Adjusted each year to reflect taxes paid)		
E. I request the Department to order fire insurance coverage for a one (1) year term and renew thereafter.		

The Department's Fire Insurance Agreement requires insurance on the property at least in the amount of

\$ _____; the approximate cost of replacing the buildings on the property.
(Insurance may be requested in a greater amount by changing the figure above.)

A copy of the policy provisions will be sent with your Certificate of Insurance.

F. CERTIFICATION. I understand that acceptance or approval of this application to purchase does not constitute any representation or warranty of any kind by the Department as to the adequacy, condition or suitability of property; the improvements thereon or any part thereof.

I also understand that acceptance or approval of this application by the Department does not constitute a contract for the purchase and resale of said property. The terms of purchase are to be set forth in a written Contract to Purchase to be executed concurrently with the transfer of title to the Department.

Date _____ Signature _____
of Applicant _____
(Please sign your name EXACTLY as you wish it to appear on your contract.)

G. Please update or file new "Application for Insurance."

DEPARTMENT OF VETERANS AFFAIRS
DIVISION OF FARM AND HOME PURCHASES



Date: _____

┌

┐ Direct
reply to:

└

┐ Re:

Your selected homesite is approved as a building site and the information on your loan application indicates that on this date you are financially qualified for a loan of \$ _____.

If your single-family dwelling is constructed and completed within a twelve (12) months period from date of this approval on the approved site, a final appraisal will be scheduled. A final loan recommendation will be made and if adequate loan funds are available, your Cal-Vet loan will be processed and funded. If loan funds are in short supply, a Commitment Letter will be issued for future funding.

The construction of improvements must be in conformance with F.H.A. minimum property standards and/or local building codes.

Additional terms and conditions:

1. You must notify this office when construction of your residence is finished and Notice of Completion is filed with the County Recorder.
2. The approval of this loan will be subject to the provisions of the California Military and Veterans Code and the Rules and Regulations of the Department of Veterans Affairs in effect at the time the loan is to be funded.
3. Your credit rating and financial status remains substantially the same or better than on the date of this letter.
4. The loan amount must be supported by our final valuation of the property and may not exceed the balance owed on the property.
5. Any additional requirements and terms and conditions state on the back.

District Manager

STATE OF CALIFORNIA
DEPARTMENT OF VETERANS AFFAIRS
DIVISION OF FARM AND HOME PURCHASES

COMMITMENT TO PURCHASE PROPERTY

Date: _____

[

NO CAL-VET LOAN FUNDS
ARE AVAILABLE FOR THIS
APPLICATION

L

The DEPARTMENT OF VETERANS AFFAIRS has processed your application for a Cal-Vet loan at:

Limitations imposed by law and the lack of available funds give no assurance when a Cal-Vet loan can be made to you. This commitment warrants only that:

- a. You are eligible as a California veteran and presently qualify for a Cal-Vet loan.
- b. The property described in your application is acceptable at the date of this letter for a loan not to exceed \$ _____. However, such acceptability may be subject to the Requirements of Purchase and terms and conditions on the reverse which are specifically made a part of this acknowledgement.

You may obtain financing on this property from another source without disqualifying yourself for a Cal-Vet loan should funds become available in the future.

Now, or in the future, should you decide against using your Cal-Vet loan to finance the property described above, please let us know.

The conditions in this letter can be changed by future legislation.

FOR THE DEPARTMENT OF VETERANS AFFAIRS

Signature, District Manager

Date: _____

SUBJECT TO AVAILABLE FUNDS

Preference Group _____

REQUIREMENTS OF PURCHASE:

☐ If this box is checked, a Structural Pest Control Report and Clearance Certificate will be required.

Before this loan is completed you will be requested to:

ADDITIONAL TERMS AND CONDITIONS

This commitment expires 15 days after the Department has offered to honor the commitment.

This commitment will be honored by the Department of Veterans Affairs under the provisions of the Veterans' Farm and Home Purchase Act of 1974 when funds are available to consummate the purchase provided the following requirements are met at the time of purchase.

1. The veteran's credit rating and financial status are substantially the same or better than on the date of this commitment.
2. Title to the property can be transferred to the Department of Veterans Affairs free and clear of unacceptable liens and encumbrances and the Department furnished an acceptable policy of title insurance from an approved title company.
3. Compliance with all applicable provisions of the Military and Veterans Code of the State of California and the Rules and Regulations of the State Department of Veterans Affairs.
4. The loan amount may not exceed the amount stated or the total owed when the loan is made, whichever is smaller.
5. This commitment is not transferable to another property or to another Cal-Vet loan applicant.

DEPARTMENT OF VETERANS AFFAIRS
DIVISION OF FARM AND HOME PURCHASES



TO ALL APPLICANTS WHO SUBMIT APPLICATIONS AFTER DECEMBER 7, 1979

Limitations imposed by law and the lack of sufficiently available funds give no assurance when a Cal-Vet loan can be made to you. Historically, funds for granting Cal-Vet loans have been obtained through the sale of General Obligation Bonds which have been authorized by the voters of California. Proposition 2 on the June 1980 election ballot provides for voter authorization of a \$750 million Veterans Bond issue which will allow for the continuing funding of new Cal-Vet loan applications. Subsequent sales, by the State Treasurer's office, of these voter authorized bonds will be the source of money for final funding of individual Cal-Vet loan transactions.

This letter only acknowledges that:

- A. The Department of Veterans Affairs received your loan application on _____ for a Cal-Vet loan to purchase a home (farm) at:

_____.

Qualification of this property is subject to applicable provisions of the Military and Veterans Code of the State of California and the rules and regulations of the Department of Veterans Affairs.

- B. You are eligible as a California veteran in the _____ preference category. Categories for processing loans during periods when funds are insufficient are ranked as follows:
- 1) Veterans wounded or disabled as a result of service.
 - 2) Former POW's, spouses of MIA's and unremarried surviving spouses of those killed in the line of active military duty.
 - 3) a. Veterans of Vietnam Period service.
b. Indian veterans who wish to purchase a home or farm on Indian trust land.
 - 4) All other qualified veterans who do not qualify under the criteria for the first three preference groups listed above.
- C. Each Cal-Vet loan application received after December 7, 1979, will be processed according to preference category and in each category in order of the date the application is received by the Department.
- D. Applications are not transferable. If you select a property other than the specific property identified above, you must file a new application.

HIRE A VETERAN — HIRE EXPERIENCE

As long as your Cal-Vet loan application has been filed in a District Office of the Division of Farm and Home Purchases before you obtain financing and acquire an interest of record in the property (prior interest of record restriction does not apply to unimproved property), you may obtain financing on this property from another source using any method of financing you choose at terms you can handle for an extended time without disqualifying yourself for a Cal-Vet loan should sufficient funds become available in the future.

If, upon completion of an evaluation of your financial qualifications and an appraisal of your property selection, it is determined that you qualify for a Cal-Vet loan, a Commitment to Purchase Letter will be issued for a specific amount on the property submitted, conditioned on availability of sufficient funds and preference category.

Now or in the future should you decide against using your Cal-Vet loan to purchase the property described above, please let us know.

The conditions in this letter can be changed by future legislation.

For the Department of Veterans Affairs:

Issuing Office:

District Manager

Date _____

APPENDIX F

SMITH BARNEY, HARRIS UPHAM & CO.
INCORPORATED

DONALD R. LARSON
SENIOR VICE PRESIDENT
(415) 955-1598

350 CALIFORNIA STREET
SAN FRANCISCO, CALIF. 94104

May 30, 1980

The Honorable Ralph C. Dills, Chairman
Senate Governmental Organization Committee
State Capital
Sacramento, CA 95814

Re: Department of Veterans Affairs of
the State of California

Dear Senator Dills:

I had the pleasure of attending the recent hearing of your Committee regarding certain aspects of the current financial programs of the Department of Veterans Affairs of the State of California. As such, I feel that it is appropriate for me to make certain comments and observations on this subject matter for your consideration.

I am a senior officer of the investment banking firm of Smith Barney, Harris Upham & Co., Inc. based in our San Francisco offices. Smith Barney had the honor of serving in the capacity of Senior Managing Banker and Principal Underwriter to the State of California and its Department of Veterans Affairs in connection with the initial issuance of Cal-Vets Home Purchase Revenue Bonds in order to finance part of the Veteran's home loan program. The initial financing of this program was successfully accomplished on March 19, 1980 through the issuance of \$200,000,000 State of California, Home Purchase Revenue Bonds, 1980 Series A.

As a resident of the State of California, I am also a veteran of the U.S. Navy having served in two wars. As such, I believe that I have some understanding of the problems of veterans.

At the outset, I would like to congratulate the present and ~~past members of the legislature of the State of California~~ for its great wisdom, foresight and compassion for sponsoring and adopting legislation since 1921 for the purpose of financing on a low cost basis homes and farms for California veterans of military service. As one of only three states of the Union to sponsor such a self-supporting program, this program has been an outstanding success for veterans and to the economy of California. This

The Honorable Ralph C. Dills
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program, which I feel has and continues to be very efficiently and effectively managed on behalf of the State by the Department of Veteran's Affairs, has furnished loans or more accurately contracts of purchases to over 300,000 veterans, the funds for which was derived from approximately \$3.7 billion general obligation and revenue bonds. I for one, would have liked to have heard testimony from some of the vast number of 300,000 veterans who have received low-cost loans and more particularly from those 3,200 veterans who recently received loans derived from the proceeds of the above mentioned Cal-Vets revenue bonds as to their reactions to this great program.

As you know, all of the funds, short of reinvestment proceeds, have been derived from the proceeds of general obligation bonds and now revenue bonds issued and sold on behalf of the Department by the Treasurer's office of the State to individual and institutional investors located throughout the United States. This is an extremely significant factor since it impacts on all forward planning as to the availability of funds for veteran's home purchase purposes. Furthermore, the quality of the credit standing of such bonds will impact the interest rate on such bonds and the resultant interest rate to the veterans.

During the course of the hearing, the question constantly was raised as to why the Department could not be more precise as to exactly when additional funds would be available for home loans to veterans during the recent six month period. This question was obviously raised by individuals who had little if any appreciation of the complexities and difficulties of raising long-term capital in national money markets, particularly when also considered with the unprecedented demand for such funds.

I submit that in my opinion the senior staff of the Department and the State Treasurer's office did an admirable job in the face of literally insurmountable problems during recent months. In fact, the Department and the State Treasurer's office should be commended for the results which they have so successfully accomplished.

Our national money markets are gradually emerging from what we consider to be one of the most severe monetary collapses in the history of our nation. If such conditions had continued, this could have rent the very fabric of our nationwide financial community. Notwithstanding this massive problem, which peaked during the first four months of this year, the Department and the State Treasurer's office were able to establish a nationwide market for a new revenue bond issue secured solely from the revenues derived from the Veteran's home purchase program and they

The Honorable Ralph C. Dills
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May 30, 1980

were able to successfully market \$200,000,000 State of California, Veterans Housing Revenue Bonds at very favorable interest rates when the prime lending rate, as established by the leading commercial banks of this nation, was hovering at 20%. Furthermore during this period, the House Ways and Means Committee of the House of Representatives of the U.S. Congress was holding hearings and actually considering legislation which could have the effect of severely curtailing this category of finance. Needless to say, this factor alone negatively impacted the flexibility, forward planning and timing of the Department and the State Treasurer's office in marketing this bond issue. In addition, the Department and the State Treasurer's office was faced at this time with the competitive forces of other major municipal housing entities and other major housing bond issues all endeavoring to tap a decreasing supply of long-term capital in our national tax-exempt money market since at that stage the traditional mortgage banking industry was in a state of collapse.

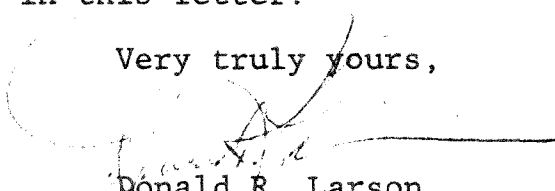
In summary, I personally feel that no individual or individuals in this State or for the matter in any other state, could possibly have established a firm, fixed time schedule within this period for raising long-term capital for single family housing purposes in the tax-exempt market in view of the chaotic money market conditions, uncertain political climate at the Federal level for single family housing programs, and the competitive forces within the industry for long-term capital funds for housing purposes.

It should also be noted that the two major national rating agencies granted ratings of "AA" on the above mentioned Cal-Vets revenue bonds. I consider these ratings to be very favorable, particularly when the general obligation bonds of the State carry the same ratings. I feel that this high credit standing and the demonstrated success of this initial Cal-Vets Revenue Bond Issue can be attributed in large part to the dedication, experience, knowledge, integrity and leadership of Miss Virginia Mae Days and her senior associates of the Department of Veterans Affairs and Mr. Grover McKean, Deputy State Treasurer. I am further of the opinion that without Miss Days and Mr. Grover McKean at the helm, it is entirely possible that this financing would not have taken place within this time frame. The State of California is very fortunate to have the services of such capable individuals.

The Honorable Ralph C. Dills
Page 4
May 30, 1980

I should be pleased to comment further at your discretion
upon the matters covered in this letter.

Very truly yours,



Donald R. Larson
Senior Vice President
& Director

DRL/as

APPENDIX G

DEPARTMENT OF VETERANS AFFAIRS

POST OFFICE BOX 1559, SACRAMENTO, CALIFORNIA 95807



Telephone: (916) 445-3111

June 5, 1980

The Honorable Ralph C. Dills
Chairman, Senate Committee on
Governmental Organization
State Capitol, Room 5046
Sacramento, CA 95814

Dear Senator Dills:

As suggested by your Consultant, Mr. Lindsay W. Miller, I am forwarding the Department's written responses to the statements made and testimony taken at the hearing on May 14, 1980, pursuant to Senate Resolution No. 35.

You will recall that because of the time limitations at that hearing, the Department was unable to complete its presentation and to respond fully. It is my understanding that these written responses were suggested in lieu of further testimony by the Department at this time.

We are submitting written responses in the order in which the hearing proceeded. Attached hereto are the following documents in the order listed.

1. Response of the Department of Veterans Affairs to
Certain Statements Made in Letter dated May 7, 1980, from
Senator Jim Nielsen to Senator Ralph Dills.

This document is a brief summary response to four statements made in Senator Nielsen's letter which we considered most pertinent. The details on which this summary response is based are contained in the existing record and in the following documents as described.

The Honorable Ralph C. Dills
Page 2
June 5, 1980

2. Response of Department of Veterans Affairs to Statements Made by Individual Veterans at Hearing Before Senate Committee on Governmental Organization on May 14, 1980.

This document is a summary of key activities and events in the processing of the Cal-Vet loan applications of the six veterans who testified at the hearing about their own cases.

The facts and sequences set forth in this summary should shed an entirely different light on their testimony.

3. Response of Department of Veterans Affairs to Statements Made by Members and Former Members of the Department's Staff at Hearing Before Senate Committee on Governmental Organization on May 14, 1980.

This document is a response to the testimony given by the six departmental employees and the former departmental employee, as that testimony is summarized in the Senate Journal, May 26, 1980, at Page 11117.

It deals primarily with funding projections and with the information given to the District Managers about the funding situation. The facts set forth in this response should also shed a different light on this testimony.

4. Response of Department of Veterans Affairs to Questions Raised at Hearing Before Senate Committee on Governmental Organization on May 14, 1980, With Respect to the Dates Shown on Certain Forms.

This document explains the meaning and significance of certain printed and handwritten dates on the Department's Forms P-15 and P-16 as they were shown to the Committee at the hearing, and includes copies of those forms in their present as well as their earlier versions.

It is also my understanding that my written "Statement to be Given Before Hearing on Senate Resolution No. 35," and the exhibits attached thereto, will be made a part of the record of the hearing, along with all the testimony.

The Honorable Ralph C. Dills
Page 3
June 5, 1980

I request that this letter and the four responses described above and attached hereto be made a part of the record also.

Very truly yours,

A handwritten signature in cursive script, reading "Virginia Mae Days". The signature is written in dark ink and is positioned above the printed name and title.

VIRGINIA MAE DAYS
Director

Attachments

Hearing Pursuant to Senate Resolution No. 35

Response of the Department of Veterans Affairs to Certain
Statements Made in Letter dated May 7, 1980, from Senator
Jim Nielsen to Senator Ralph Dills.

The Department submits the following response to the statements as quoted from Senator Neilsen's letter.

1. "Unlike previous shortfalls, there have been serious and prolonged economic losses suffered by a substantial number of veterans."

No evidence was adduced at the hearing that "previous shortfalls" had not resulted in economic losses to veterans, whether serious or prolonged.

The evidence that was adduced at the hearing, as supplemented by the written statements submitted by the Department, does not show that there were "serious and prolonged economic losses suffered by a substantial number of veterans."

At best, the evidence tends to show that some economic losses, in unspecified amounts and for unspecified times, may have been suffered by some veterans.

2. "The specific cause of the economic consequence lies in the fact that Department of Veterans Affairs representatives provided no information about possible delays to the individual applicants."

The information provided about possible delays is shown by the attachments to the Director's written "Statement to be Given Before Hearing on Senate Resolution No. 35," and by the Department's written responses to the statements made by individual veterans and members and former members of the Department's staff.

It is simply not true that "Department . . . representatives provided no information about possible delays" Of the six individual veterans who testified, the Department's summary of key events from their files shows that five (Dillon, Ius, Liner, Denton, and Dillard) were informed either that no funds were available or that the ultimate funding of their loans depended upon the availability of funds. The sixth (Meeker), and not the Department, was responsible for the delay in his case.

3. "At all times from about October 2, 1979, through February 23, 1980, veterans were told that there was no problem, that funds were available, and that they could go ahead with the proposed home purchases."

The evidence adduced at the hearing, as supplemented by the Department's written responses to the testimony of individual veterans and members and former members of the staff, simply does not bear out this statement.

Five of the individual veterans who testified were not so told, and one was responsible for his own delays. In addition to the other information shown in the Department's responses, the information given to the District Manager's at the staff meeting of October 2 and 3, 1979, the News Release of December 14, 1979, and the Cal-Vet-Gram of February 20, 1980, also show that this statement is simply not true.

4. "Testimony of staff will demonstrate that Virginia Mae Days . . . knew or should have known of the financial shortfall and knowingly enforced a policy of misrepresentation."

The testimony of members of the Department staff did not so demonstrate.

The Department's written response to their testimony shows that the District Managers were fully informed of the funding problems at the staff meeting of October 2 and 3, 1979, by the Director, the Division Manager, and the Fiscal Officer, and of loan demand by their monthly activity reports.

Neither the minutes of that staff meeting nor the contents of the December 14 News Release contain any misrepresentations whatsoever. No evidence was adduced at the hearing which showed or even tended to show a knowing enforcement of a policy of misrepresentation by the Director, much less any motive for such an action.

This charge is clearly untrue.

HEARING PURSUANT TO
SENATE RESOLUTION NO. 35

Response of the Department of Veterans Affairs to Statements Made
by Individual Veterans at Hearing Before Senate Committee on
Governmental Organization on May 14, 1980.

The Department of Veterans Affairs submits the following summary of key events, as shown by the files, in the processing of the Cal-Vet loan applications of the veterans who testified at the hearing mentioned above.

HARRY L. DILLON ("Construction Loan")

- | | | |
|---------------|---|---|
| May 3, 1979 | - | Veteran filed application in Concord District for Cal-Vet loan of \$55,000 on home under construction in Vallejo. Application shows estimated construction completion date of August, 1979. |
| May 24, 1979 | - | District sent letter to veteran requesting additional information on California residency at time of entry into service. |
| June 20, 1979 | - | Veteran returned additional information on residency to District. |
| June 21, 1979 | - | District scheduled home for appraisal to be completed on or before July 2, 1979. |
| June 26, 1979 | - | Appraisal of home completed. |
| July 10, 1979 | - | Application approved by District. |
| July 14, 1979 | - | Homesite approval and loan approval of \$55,000 sent to veteran. |

NOTE: Some time later, veteran cancelled this application. No reason or date for cancellation appears in file.

-
- | | | |
|------------------|---|---|
| January 28, 1980 | - | Veteran filed another application in Concord District for Cal-Vet loan of \$55,000 on another home under construction on a different lot in Vallejo. Application shows estimated construction completion date of February 1, 1980. Application form is stamped in red ink "Subject to Availability of Funds." |
|------------------|---|---|

- February 13, 1980 - Preliminary Title Report received by District.
- February 27, 1980 - Application approved for Acknowledgment letter and appraisal.
- March 3, 1980 - Veteran called to inquire about funds for his loan. Was informed that funds were not available and might not become available until July or August.
- March 11, 1980 - District sent Acknowledgment letter (P-16) to veteran, advising of lack of funds, stating no assurance as to when loan could be made, and advising of eligibility in third preference category.
- May 6, 1980 - District sent letter to veteran stating that they had been unable to contact anyone to make arrangements for access to appraise the property, and asking the veteran to provide information as to how such access could be obtained.

NOTE: There is no evidence in the file of a response to this letter from Mr. Dillon. However, on May 22, 1980, the Division Manager was informed by the District that access to the property had been obtained and that the appraisal had been completed.

In any case, it appears from the file that this veteran was informed at the time of his new application on January 28, 1980, that his application was subject to availability of funds, and that he was more fully informed later, on March 3 and 11, 1980, as to the lack of available funds.

(As a third-preference veteran who applied on or after December 10, 1979, Mr. Dillon's loan cannot be funded until additional Cal-Vet bonds are authorized and sold in sufficient quantities to reach third-preference veterans.)

HERMAN L. IUS ("Construction Loan")

- July 17, 1979 - Veteran filed application in Santa Rosa District for Cal-Vet loan of \$55,000 on home proposed to be constructed on vacant lot owned by the veteran in Clear Lake Highlands. Application does not show estimated date for completion.
- August 1, 1979 - Preliminary Title Report (PTR) received by District.
- August 27, 1979 - Appraisal of lot completed.
- September 5, 1979 - Homesite approval and loan approval (P-14)* of \$55,000 sent to veteran, with additional requirements, including elimination of several exceptions from Preliminary Title Report and submission of a copy of Record of Survey.
- September 28, 1979 - District received letter from title company stating that they would be willing to eliminate or issue endorsements on some but not all of the exceptions.
- October 9, 1979 - District received letters from veteran complying with some but not all the additional requirements.
- October 16, 1979 - Local building inspections on framing, roof sheathing, insulation, and rough wiring completed.
- January 15, 1980 - Appraisal completed by District.
- January 17, 1980 - Offer Letter (P-81) sent to veteran, along with request for updated PTR and list of remaining requirements for purchase.
- January 28, 1980 - Final local building inspection completed.
- February 6, 1980 - District received Offer Letter back from veteran, accepting offer and agreeing to complete requirements of purchase by February 6, 1980
- February 7, 1980 - Application to Purchase (P-11) sent to veteran. (This is the final document in the application and approval process.)

*See NOTE on Page 10. Homesite Approval (P-14) letter clearly informed veteran that the funding of the loan upon completion of construction would depend upon the availability of funds at that time.

February 21, 1980 - Signed Application to Purchase received
by District from veteran. Loan ready to
be funded

(As a fourth-preference veteran who applied prior to December 10,
1979, Mr. Ius' loan will be funded from the proceeds of the bond
sale scheduled for May 28, 1980.)

STEPHEN P. LINER ("Construction Loan")

- November 16, 1979 - Veteran filed application in Santa Rosa District for Cal-Vet loan of \$55,000 on home under construction in Santa Rosa. Application shows estimated construction completion date of January, 1980. Real Estate Purchase Agreement dated November 10 and 11, 1979, requires veteran to apply for Cal-Vet loan within 7 days, and provides that "escrow will close within 90 days hereof."
- February 12, 1980 - Appraisal completed. Appraisal report shows construction complete except for floor coverings.
- February 21, 1980 - Application approved for loan of \$55,000.
- February 22, 1980 - Commitment to Purchase Property (P-15) sent to veteran, along with requirements of purchase. Commitment letter states that "lack of available funds give no assurance when a Cal-Vet loan can be made to you." Requirements of purchase included submission of soils engineer's and subdivision reports.
- March 7, 1980 - Veteran cancelled application.
- May 6, 1980 - Veteran requested application be re-opened.
- May 12, 1980 - Veteran again cancelled application.

NOTE: There is no direct evidence in the file as to why veteran cancelled, re-opened, and cancelled again. However, a memorandum dated May 21, 1980, from Robert E. Preston, Acting District Manager, states that veteran first cancelled because Seller would not hold the property, that veteran re-opened because he learned that funds were then available and that home had still not been sold, and that veteran cancelled again because Seller had increased price of house by \$6,000. There is no indication in the file as to how the Acting District Manager obtained this information.

(As a third-preference veteran who applied before December 10, 1979, had Mr. Liner not cancelled his original application on March 7, 1980, his loan would have been funded from the proceeds of the April 17, 1980, bond sale.)

KEITH DENTON ("Construction Loan")

- January 24, 1979 - Veteran filed application in Redding District for Cal-Vet loan of \$43,000 on home to be constructed on vacant lot in Cottonwood. Application shows lot acquired January 16, 1979, but does not show estimated construction completion date. (Veteran has own construction business -- is general building contractor.)
- February 27, 1979 - Homesite approval and loan approval (P-14)* of \$35,000 sent to veteran, with requirements for purchase.
- November 19, 1979 - Construction of home completed.
- November 26, 1979 - Veteran filed updated application in Redding District for Cal-Vet loan of \$35,000 on home in Cottonwood. Application shows lot acquired in September, 1979.
- December 5, 1979 - Appraisal of home completed.
- January 4, 1980 - Appraisal reviewed and loan approved.
- January 23, 1980 - Application to Purchase (P-11) sent to veteran. (Final processing document.)
- January 29, 1980 - Veteran signed and returned Application to Purchase and loan package sent to Sacramento for funding.
- March 17, 1980 - District notified by phone that veteran may cancel application.
- March 27, 1980 - Veteran requested cancellation of application, no reasons shown in file.

NOTE: Veteran's first application shows lot acquired in January, 1979. Veteran's second (updated) application shows lot acquired in September, 1979. There is no explanation in the file for this discrepancy. In any case, the processing of Mr. Denton's loan was completed a little more than two months after construction was completed.

(As a fourth-preference veteran who applied prior to December 10, 1979, and whose loan package was in Sacramento prior to February 7, 1980, his loan would have been funded on or about April 2, 1980, from the proceeds of the revenue bond sale in March.)

*See NOTE on Page 10. Homesite Approval (P-14) letter clearly informed veteran that the funding of the loan upon completion of construction would depend upon the availability of funds at that time.

WILLIAM L. DILLARD ("Construction Loan")

- September 19, 1979 - Veteran filed application in Concord District for Cal-Vet loan of \$55,000 on home under construction in Benicia. Application shows estimated construction completion date of January, 1980.
- November 2, 1979 - District acknowledged receipt of application and requested escrow closing statement from sale of former home.
- November 15, 1979 - Preliminary appraisal completed.
- November 28, 1979 - Loan of \$55,000 approved, on satisfactory completion of construction.
- November 29, 1979 - Homesite approval and loan approval (P-14)* of \$55,000 sent to veteran.
- December 11, 1979 - District received escrow closing statement for sale of former home.
- February 29, 1980 - Veteran notified District that construction had been completed.
- March 10, 1980 - Commitment to Purchase letter (P-15) sent to veteran, advising him that loan had been approved but that lack of available funds gave no assurance as to when loan could be made.
- March 28, 1980 - Application to Purchase (P-11) sent to veteran, signed and returned on same day.
- April 18, 1980 - Loan package sent to Sacramento for funding.
- April 25, 1980 - Escrow instructions sent to title company.
- April 30, 1980 - Loan funded, escrow closed.

(As a third-preference veteran who applied prior to December 10, 1979, Mr. Dillard's loan was funded within two months from the date construction was completed.)

*See NOTE on Page 10 Homesite Approval (P-14) letter clearly informed veteran that the funding of the loan upon completion of construction would depend upon the availability of funds at that time.

ALLEN L. MEEKER

- March 27, 1978 - Veteran filed application in Sacramento District for Cal-Vet loan of \$43,000 in Elk Grove.
- April 14, 1978 - Appraisal completed.
- April 21, 1978 - Loan approved for \$43,000 and offer letter sent, with requirements for purchase.
- April 26, 1978 - Veteran signed offer letter, agreeing to complete requirements of purchase.
- June 15, 1978 - District wrote veteran advising that certain requirements had not yet been completed.
- June 20, 1978 - Application to Purchase (P-11) sent to veteran.
- June 27, 1978 - Veteran signed Application to Purchase, loan ready to be funded.
- July 27, 1978 - Loan package sent to Headquarters for funding.
- August 3, 1978 - Headquarters sent escrow instructions and documents to title company.
- December 8, 1978 - Headquarters wrote to title company asking status of escrow. No reply received.
- February 1, 1979 - Headquarters wrote to title company advising that if they were unable to complete transaction by February 15, 1979, they should return the Department's documents.
- March 15, 1979 - Headquarters communicated with title company by phone. Title company advised that escrow was being held up due to change in legal description of property, that a new subdivision map was to be recorded by the end of March. Headquarters asked title company to send new preliminary title report, and told them Department would extend its instructions until early April, 1979. No further word was received from title company or veteran.
- June 25, 1979 - Headquarters wrote to title company stating that as they had been unable to close the escrow, they were to return the Department's documents.

- August 27, 1979 - Title company returned documents, application cancelled.
- October 25, 1979 - Veteran filed new application in Sacramento-South District for Cal-Vet loan of \$55,000 on same home, but on smaller lot.
- January 18, 1980 - District received preliminary title report (PTR) showing new legal description. PTR also shows property had been owned since October, 1977, by William C. Meeker (apparently veteran's brother) and Marilyn D. Meeker, husband and wife, and Ron D. Frye and Rose Ann Frye, husband and wife, each couple as to an undivided one-half interest.
- February 5, 1980 - Loan of \$55,000 approved.
- February 29, 1980 - Appraisal completed.
- March 26, 1980 - Veteran completed and filed new application for insurance.
- May 6, 1980 - Application to Purchase (P-11) sent to veteran.
- May 11, 1980 - Veteran signed and returned Application to Purchase, loan ready to be funded.
- May 16, 1980 - Escrow instructions sent to title company.

NOTE: This veteran's original loan was approved and a loan offer made less than one month after he filed his application. Then, the Department's original escrow instructions and documents remained in the escrow at the title company for nearly a year! The fact that the escrow failed to close during that time was not due to any requirement imposed by the Department. (The Department's original escrow instructions were based on the original description of the property as shown on the first preliminary title report, the parcel consisting of approximately 2.56 acres, and the Department was prepared to make the loan on that lot. The veteran [or his brother] apparently decided to split the lot, and the delay in the original escrow resulted from the necessity for the veteran [or his brother] to comply with the requirements of the Subdivision Map Act. The veteran's new application was filed and the new loan of \$55,000 was approved on the same home, but on a smaller portion of the original parcel, which after the split consisted of approximately .724 acres.)

NOTE: Of the six veterans who testified, five (Dillon, Ius, Liner, Denton, and Dillard) had submitted applications for Cal-Vet loans on homes to be constructed or under construction.

In processing such applications, the Department normally makes an initial determination of eligibility and qualifications, and reviews and approves the homesite and proposed construction. The veteran then obtains interim construction financing or makes other arrangements for the construction of the home. When the home is completed, the Department makes a final appraisal and makes the Cal-Vet loan to the veteran to "take out" his interim financing or otherwise purchase the property.

In these kinds of loans, as a result of construction and related delays, it is not uncommon for a period of from 8 to 12 months to elapse from application to funding. In addition, availability of funds may also delay the actual funding of the loan, and the veteran is so informed. The Homesite Approval (P-14) letter states in the second paragraph as follows:

"If your single-family dwelling is constructed and completed within a twelve (12) months period from date of this approval on the approved site, a final appraisal will be scheduled. A final loan recommendation will be made and if adequate loan funds are available, your Cal-Vet loan will be processed and funded. If loan funds are in short supply, a Commitment Letter will be issued for future funding."

Three of the above-named veterans (Ius, Denton, and Dillard) received this letter, each within approximately two months or less from the date of their application. The other two (Dillon and Liner) did not receive the letter because the construction of their homes was nearing completion at the time of their application.

Hearing Pursuant to Senate Resolution No. 35

Response of Department of Veterans Affairs to Statements Made by Members and Former Members of the Department's Staff at Hearing Before Senate Committee on Governmental Organization on May 14, 1980.

The following members and former members of the Department's staff testified at the hearing:

Dal Porto, Bernard - Manager, Santa Clara District, Division of Farm and Home Purchases.

Johnson, H. J. - Former Manager of Division of Farm and Home Purchases.

Keppel, Jack - Manager, Santa Rosa District, Division of Farm and Home Purchases.

Osborne, Jack - Associate Property Agent, Santa Rosa District, Division of Farm and Home Purchases.

Preston, Robert - Senior Property Agent, Division of Farm and Home Purchases.

Rich, J. A. - Manager, San Diego District, Division of Farm and Home Purchases.

Varnum, Gordon - Manager, Redding District, Division of Farm and Home Purchases.

The testimony of these people is summarized in the Senate Journal, May 26, 1980, at Page 11117, as follows:

"Several department district office managers also testified at the hearing. Their testimony indicated there had been confusion within the department in recent months as to the amount of money available for loans, and how soon that amount would be expended. In addition, they charged that communication between department headquarters and the district offices was poor, and that they often had to obtain information on department policy from the news media."

It was stated at the hearing that these people appeared and testified voluntarily, at the request of Senator Nielson. It should be noted that the Department's Division of Farm and Home Purchases has 15 district offices throughout the state, and that the managers from only four of those offices appeared. For whatever reasons, the managers from the other 11 district offices were not asked or did not choose to appear, and their testimony was therefore not heard by the committee.

For purposes of evaluating the credibility of these witnesses, the committee should also be aware that Messrs. Dal Porto, Osborne, Preston, Rich, and Varnum constitute five of the seven employees who recently appealed a civil service examination given for the position of Supervising Property Agent within the Department. They alleged discrimination in the examination on the basis of race, sex, and age, and that improper procedures were used. The State Personnel Board denied their appeal on April 30, 1980.

One of these witnesses, Mr. Osborne, has filed several grievances of a personnel nature within the past year or so, all of which have been denied by the Director and/or the State Personnel Board. Another, Mr. Johnson, retired two years ago and, as he stated at the hearing, has no direct knowledge of what transpired within the Department during that time.

Mr. Johnson's analogy at the hearing of Cal-Vet loan cash projections to the balancing of one's personal checkbook was a gross oversimplification. It might perhaps have been more accurate to say that Cal-Vet loan cash projections may be likened to the balancing of your personal checkbook where you have only estimates or hopeful expectations as to when and how much your employer will pay you, and even grosser estimates as to when and how much your creditors and others will demand that you pay them.

Fund Projections

It is not entirely true that "there had been confusion within the Department in recent months as to the amount of money available for loans, and how soon that amount would be expended."

It is true, however, that the Department, since at least June, 1979, continually found it necessary to revise its cash projections in the light of continually increasing loan demand, rapid changes in market conditions, changes in plans and schedules for bond sales, decreases in prepayments, and a lessening of the feasibility for General Fund borrowing as a result of the contemplated first sale of revenue bonds.

The Department made cash projections in February, June, August, September, and December of 1979. During that time, our projections of loan "peak" increased from \$58 million per month to \$85 million per month. During the same period, our estimates of the "funding rate," the ratio of loans actually made to the total number of applications filed, increased from an historical rate of 60% to a new rate of 75% to 80%. In other words, in the past the Department has experienced a fairly steady "dropout rate" of about 40% of applications filed, but in recent months that rate decreased to from 20% - 25%.

During the same time, our projections of cash balances on hand as of December 1, 1979, decreased from \$110 Million to \$50 Million. Meanwhile, our hoped for sale of the program's first issue of revenue bonds continued to be delayed as a result of uncertainties arising from the Ullman Bill in Congress.

Although in August and November, 1979, we were able to sell general obligation bonds totaling \$275 million, and later in March, April, and May, 1980, to sell a combination of general obligation and revenue bonds totaling \$400 million, these funds were sufficient to fund only those applications filed prior to December 10, 1979.

Communications With Districts

Although there is probably always room for improvements in communications between headquarters and field offices, it is not true that "communications between Department headquarters and the district offices were poor."

In addition to monthly activity reports, executive notices, field office directives, and internal memoranda, the District Offices also receive copies of all departmental news releases, Cal-Vet Grams, and Cal-Vet Newsletters, and several staff meetings of headquarters personnel and all district managers are held each year.

As long ago as June, 1978, an article in the Cal-Vet Newsletter warned that funding problems might arise from the enactment of Senate Bill No. 254, which extended Cal-Vet loan eligibility to veterans who had been discharged for more than 25 years.

In July and August, 1978, articles in the newsletter announced that increased loan demand and delays in bond sales had affected availability of funds to such an extent that loans would have to be processed according to statutory preferences. Earlier, in June, 1978, a field office directive had been sent to all District Offices instructing them to implement the statutory preference scheme and telling them how to do it.

In June, 1979, an article in the Cal-Vet Newsletter explained the potential impact of the Ullman Bill on the Cal-Vet loan program. In September, 1979, another article in the Newsletter explained that sales of revenue bonds had been delayed due to uncertainties arising from the Ullman Bill, and that increased demand and district backlogs had created processing delays.

On August 13, 1979, a memorandum from the Deputy Director to "All Farm and Home District Managers and Staff" advised that at that time the Department did not have sufficient funds available to accommodate a 45-day loan processing period. On August 21, 1979, the Division Manager sent to "All District Managers" a memorandum from the Deputy Director instructing them to advise all veterans that they may obtain interim financing where delays in processing their applications would prohibit them from purchasing a particular home.

Then, on October 2 and 3, 1979, a meeting of headquarters staff and all District Managers was held in South San Francisco.

Excerpts from the minutes of the meeting on October 2 show the following:

"Don Backstrom, Manager of Farm and Home Purchases, opened the meeting at 9:30 a.m. and went through the agenda.

"Mr. Backstrom announced that the sale of Revenue Bonds for the Cal-Vet loan program had been approved by the Treasurer's Office. The money from the sale of the bonds would probably be available in February or March of 1980.

"Mr. Backstrom stated that approximately 4,000 of the 9,000 + applications in process at present could be attributed to changes in legislation - extension of eligibility beyond 25 years from release from military service and the removal of the limitation on the value of improvements."

* * *

"Mr. Backstrom then introduced Jack Moon, Department Fiscal Officer. Mr. Moon stated that the Department currently has \$115,000,000 in cash on hand. Farm and Home is loaning at a rate of \$3,000,000 per day.

"The Veterans Finance Committee has authorized an additional \$150,000,000 in Veterans Bonds to be sold in November.

* * *

"There will be \$200 million in authorized Veterans Bonds remaining after the November sale. It is projected that \$125,000,000 will be sold in early 1980, but it depends on what happens to the November sale. The bonds sold in August took over a month to resell. Under present conditions, we will have enough money to fund at the current rate"

Excerpts from the minutes of the meeting on October 3 show the following:

"Mr. Backstrom opened the meeting at 8:30 a.m. by introducing Virginia Mae Days, Director of Veterans Affairs.

"Miss Days gave an overview of the Department's bonding problems. If we continue lending at the present rate, the money from the November bond sale which was recently authorized by the Veterans Finance Committee in the amount of \$150,000,000 will last until March 1, 1980, when it may be necessary to borrow from the General Fund in order to pay debt service. It may be necessary to go on a preference system in lending. Continuation of lending at present rate will depend on our ability to sell Revenue Bonds

"It was asked, if we have to go to a preference system in lending, where would the cut off point be? Miss Days stated that those who have applications in at the time preference system is instituted will be funded"

NOTE: All District Offices receive a monthly "Activity Report" showing various statistical data for each District and the Division as a whole, including numbers of new applications and total applications in process. All District Managers know that the maximum permissible Cal-Vet home loan is \$55,000, and all knew in October, 1979, that the average home loan at that time was about \$50,000.

The Monthly Activity Report for September, 1979, showed that as of September 30, 1979, there were a total of 9,926 applications in process statewide. A little simple arithmetic shows that 9,926 applications at an average of \$50,000 per application totals \$496,300,000; that at an average lending rate of \$3,000 000 per day it would take a minimum of 165

working days to lend \$496,300,000; and that at an average of 21 - 22 working days per month, 165 working days equals 8 months.

The Monthly Activity Reports for October and November, 1979, show that new applications received during those two months totaled 5,604, more than half of the total number in process at the end of September. It is therefore readily apparent why it became necessary to implement the statutory preferences in December, 1979.

The Director's News Release dated December 14, 1979, stated in pertinent parts as follows:

"An unprecedented volume of applications for Cal-Vet financed farm and home loans have caused a drain on the available funds for the program, according to Virginia Mae Days, Director of the State Department of Veterans Affairs.

"Effective Monday, December 10, 1979, she said, the Division of Farm and Home Purchases began issuing 'commitment to purchase' letters, conditioned on the availability of sufficient funds and based on a preference category.

"Miss Days said it appears that there is sufficient bond authorization to fund those applications filed before December 10. However, potential Cal-Vet borrowers who had not filed an application . . . by that date, may have to wait for their loan approval.

"Those who filed before December 10, Days declared, will be completely processed. But those who filed on or after that date, will be processed only to the conditional purchase letter."

* * *

". . . 'Although \$200 million in 1978 voter-approved bonds remain unsold, applications already on file as of the December 10 cut-off date, will deplete that amount.

"Until we have additional funds available, the preference system will have to remain in effect, we see no other alternative," Days said."

"When there are additional funds available, applicants will be contacted according to preference category and the date of their application for completion of loan processing . . ."

This news release also advised of the (statutory) provision permitting applicants to obtain interim financing from another source pending approval and processing of their applications. About 2,700 copies of this release were distributed, not only to the Department's district offices, but also to veterans' and other news media, all veterans' organizations, colleges and universities, executive officials and legislators, Veterans Administration facilities, County Boards of Supervisors, County Veteran Service Officers, and others.

Then, on February 20, 1980, a Cal-Vet Gram was issued which explained the entire funding situation in great detail. Approximately 10,000 copies of this document were printed and given the same distribution as the December 14 News Release. The remaining copies (about 7,300) were sent to all the District Offices for distribution to veteran applicants and prospective applicants.

As can be seen, the District Managers were given a detailed briefing at the October meeting, including information as to cash on hand, lending rate, and projected bond sales, including a statement by the Director that continuation of the lending rate at that time would depend upon the ability to sell Revenue Bonds, and a warning that it might become necessary to implement the statutory preference scheme. As can also be seen, the District Managers received regular monthly activity reports containing various statistical data, including numbers of applications.

In addition, the News Release of December 14 clearly states that there was a drain on available funds and that future loans would be conditioned on the availability of funds and based on preference categories.

Much ado was made about the statement in the release that "it appears that there is sufficient bond authorization to fund those applications filed before December 10." This was a true statement then as well as now, and the release clearly stated that \$200 million of that authorization remained unsold and that even that \$200 million would be needed to fund the pre-December 10 applications.

The District Managers who testified are all long-time employees of the Department, and all District Managers know that bonds have to be sold to produce available cash.

At no time did the Director change the statements made in this news release, and at no time did the Director issue instructions to divisional, regional, or district managers to tell veterans that there were no funding problems, or that funds were immediately and readily available, or that the Department was not "out of money."

Furthermore, from October, 1979, through February, 1980, the Division Manager met frequently with the Regional Managers to discuss the increases in loan applications and the funds available for those applications. During this same time, both the Division Manager and the Regional Managers communicated frequently with the District Managers by telephone.

From October to early December, 1979, Division headquarters staff monitored the number of new applications on a weekly basis. The results of this monitoring indicated that the Department's remaining bonding authority and anticipated bond sales would be sufficient to fund applications on hand up to December 7, 1979.

On that date, each Regional Manager contacted the District Managers under his supervision by telephone, and told them that there were no funds or bonding authority available to fund applications filed after that date, and that the statutory preferences would be implemented as of that date.

In late December, 1979, the Department was informed that an anticipated sale of \$125 million in General Obligation bonds would have to be reduced to \$80 million. The Regional Managers informed their District Managers of this by telephone. In January, 1979, the Department was informed that an anticipated sale in February of \$200 million in Revenue Bonds would have to be delayed until March, 1980. The Regional Managers also informed their District Managers of this development by telephone.

As pointed out by the Department's Chief Attorney at the hearing, the only District Manager who came close to testifying accurately as to what the managers were told was Mr. Jack Keppel, when he stated in substance that they were told that funds would be available "if certain things happened." The actual facts speak for themselves.

However, to avoid any potential communication problems with veterans in the event District Office staff do not advise them of the current funding situation, a notice is to be displayed in each District Office which states as follows:

NOTICE TO ALL CALIFORNIA VETERANS*

~~All Cal-Vet loans will be made subject to the availability of authorized bond funding, the scheduling of bond sales, and the actual sale of bonds.~~

When funds are insufficient to cover applications filed,
Cal-Vet loans will be processed according to statutory preference.

The preference categories are:

- (First Priority) 1. Veterans wounded or disabled as a result of qualifying service.

- (Second Priority) 2. Unremarried spouses of veterans killed in the line of duty while on active duty, unremarried spouses of veterans designated as missing in action and former prisoners of war.
- (Third Priority) 3. Veterans who served during the Vietnam period (August 5, 1964, through May 7, 1975) and Indian veterans applying for loans on reservation or trust land.
- (Fourth Priority) 4. All other qualified California veterans.

*As defined in Military and Veterans Code,
Sections 980, 980.1 and 980.2.

HEARING PURSUANT TO SENATE RESOLUTION NO. 35

Response of the Department of Veterans Affairs to Questions Raised at Hearing Before Senate Committee on Governmental Organization on May 14, 1980, With Respect to the Dates Shown on Certain Forms.

At the hearing, questions were raised about the meaning and significance of certain printed and handwritten dates on the Department's Form P-15 and P-16. The implication may have been left that the Department had altered these forms in some way in an attempt to mislead the Committee. Nothing could be further from the truth.

Attached hereto as Exhibits A and B are copies of the Forms P-15 and P-16 which were shown to the Committee. These forms bear printed dates of (1/80) and (3/80) in the lower left-hand corner. Handwritten above the date (1/80) on the Form P-15 is the phrase "Since 1/76" and handwritten above the date (3/80) on the Form P-16 is the date "1/80." The Form P-15 also has in the upper right- and lower right-hand corners, the following printed statements, respectively: "No Cal-Vet Loan Funds Are Available For This Application," and "Subject To Available Funds." Handwritten by each of these statements is the phrase "Since 1976."

These handwritten notations were made simply to show that these forms had existed in substantially the same form since the dates shown in handwriting (1/76 and 1/80, respectively), and that only minor changes had been made as of the printed dates (1/80 and 3/80, respectively).

Attached hereto as Exhibits C and D are copies of the Forms P-15 and P-16 as they existed from the earlier dates (1/76 and 1/80). A comparison of these forms will show that they contained substantially the same information from the earlier dates as from the more recent dates. On the more recent P-15 (1/80) the only revisions made were to change the name of the form (from Acknowledgment of Cal-Vet Loan Application to Commitment to Purchase Property), and the addition of a line for "Preference Group" at the lower right-hand corner. On the more recent P-16 (3/80) the revisions made were to eliminate the reference to Revenue Bonds in the first paragraph (the sale had been completed), to add the last sentence to the first paragraph about sales of bonds by the State Treasurer, and to relocate Paragraphs C and D from the back page to the front page.

The Department regrets any misunderstanding that may have arisen from its attempt to explain these facts to the Committee at the hearing.

- 101 -
STATE OF CALIFORNIA
DEPARTMENT OF VETERANS AFFAIRS
DIVISION OF FARM AND HOME PURCHASES

COMMITMENT TO PURCHASE PROPERTY

Date: _____

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SINCE 1976

NO CAL-VET LOAN FUNDS
ARE AVAILABLE FOR THIS
APPLICATION

The DEPARTMENT OF VETERANS AFFAIRS has processed your application for a Cal-Vet loan at:

Limitations imposed by law and the lack of available funds give no assurance when a Cal-Vet loan can be made to you. This commitment warrants only that:

- a. You are eligible as a California veteran and presently qualify for a Cal-Vet loan.
- b. The property described in your application is acceptable at the date of this letter for a loan not to exceed \$ _____. However, such acceptability may be subject to the Requirements of Purchase and terms and conditions on the reverse which are specifically made a part of this acknowledgement.

You may obtain financing on this property from another source without disqualifying yourself for a Cal-Vet loan should funds become available in the future.

Now, or in the future, should you decide against using your Cal-Vet loan to finance the property described above, please let us know.

The conditions in this letter can be changed by future legislation.

FOR THE DEPARTMENT OF VETERANS AFFAIRS

Signature, District Manager

Date: _____

SUBJECT TO AVAILABLE FUNDS

SINCE 1976

P-15
SINCE 7/76
(100) Commitment

Preference Group _____

REQUIREMENTS OF PURCHASE:

☐ If this box is checked, a Structural Pest Control Report and Clearance Certificate will be required.

Before this loan is completed you will be requested to:

ADDITIONAL TERMS AND CONDITIONS

This commitment expires 15 days after the Department has offered to honor the commitment.

This commitment will be honored by the Department of Veterans Affairs under the provisions of the Veterans' Farm and Home Purchase Act of 1974 when funds are available to consummate the purchase provided the following requirements are met at the time of purchase.

1. The veteran's credit rating and financial status are substantially the same or better than on the date of this commitment.
2. Title to the property can be transferred to the Department of Veterans Affairs free and clear of unacceptable liens and encumbrances and the Department furnished an acceptable policy of title insurance from an approved title company.
3. Compliance with all applicable provisions of the Military and Veterans Code of the State of California and the Rules and Regulations of the State Department of Veterans Affairs.
4. The loan amount may not exceed the amount stated or the total owed when the loan is made, whichever is smaller.
5. This commitment is not transferable to another property or to another Cal-Vet loan applicant.



TO ALL APPLICANTS WHO SUBMIT APPLICATIONS AFTER DECEMBER 7, 1979

Limitations imposed by law and the lack of sufficiently available funds give no assurance when a Cal-Vet loan can be made to you. Historically, funds for granting Cal-Vet loans have been obtained through the sale of General Obligation Bonds which have been authorized by the voters of California. Proposition 2 on the June 1980 election ballot provides for voter authorization of a \$750 million Veterans Bond issue which will allow for the continuing funding of new Cal-Vet loan applications. Subsequent sales, by the State Treasurer's office, of these voter authorized bonds will be the source of money for final funding of individual Cal-Vet loan transactions.

This letter only acknowledges that:

- A. The Department of Veterans Affairs received your loan application on _____
for a Cal-Vet loan to purchase a home (farm) at:

Qualification of this property is subject to applicable provisions of the Military and Veterans Code of the State of California and the rules and regulations of the Department of Veterans Affairs.

- B. You are eligible as a California veteran in the _____ preference category. Categories for processing loans during periods when funds are insufficient are ranked as follows:
- 1) Veterans wounded or disabled as a result of service.
 - 2) Former POW's, spouses of MIA's and unmarried surviving spouses of those killed in the line of active military duty.
 - 3) a. Veterans of Vietnam Period service.
b. Indian veterans who wish to purchase a home or farm on Indian trust land.
 - 4) All other qualified veterans who do not qualify under the criteria for the first three preference groups listed above.
- C. Each Cal-Vet loan application received after December 7, 1979, will be processed according to preference category and in each category in order of the date the application is received by the Department.
- D. Applications are not transferable. If you select a property other than the specific property identified above, you must file a new application.

As long as your Cal-Vet loan application has been filed in a District Office of the Division of Farm and Home Purchases before you obtain financing and acquire an interest of record in the property (prior interest of record restriction does not apply to unimproved property), you may obtain financing on this property from another source using any method of financing you choose at terms you can handle for an extended time without disqualifying yourself for a Cal-Vet loan should sufficient funds become available in the future.

If, upon completion of an evaluation of your financial qualifications and an appraisal of your property selection, it is determined that you qualify for a Cal-Vet loan, a Commitment to Purchase Letter will be issued for a specific amount on the property submitted, conditioned on availability of sufficient funds and preference category.

Now or in the future should you decide against using your Cal-Vet loan to purchase the property described above, please let us know.

The conditions in this letter can be changed by future legislation.

For the Department of Veterans Affairs:

Issuing Office:

District Manager

Date _____

STATE OF CALIFORNIA
DEPARTMENT OF VETERANS AFFAIRS
DIVISION OF FARM AND HOME PURCHASES

ACKNOWLEDGEMENT OF CAL-VET LOAN APPLICATION

Date:

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NO CAL-VET LOAN FUNDS
ARE AVAILABLE FOR THIS
APPLICATION

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The DEPARTMENT OF VETERANS AFFAIRS has processed your application for a Cal-Vet loan at:

Limitations imposed by law and the lack of available funds give no assurance when a Cal-Vet loan can be made to you. This acknowledgement warrants only that:

- a. You are eligible as a California veteran and presently qualify for a Cal-Vet loan.
- b. The property described in your application is acceptable at the date of this letter for a loan not to exceed \$ _____. However, such acceptability may be subject to the Requirements of Purchase and terms and conditions on the reverse which are specifically made a part of this acknowledgement.

You may obtain financing on this property from another source without disqualifying yourself for a Cal-Vet loan should funds become available in the future.

Now, or in the future, should you decide against using your Cal-Vet loan to finance the property described above, please let us know.

The conditions in this letter can be changed by future legislation.

FOR THE DEPARTMENT OF VETERANS AFFAIRS

Signature, District Manager

Date: _____

SUBJECT TO AVAILABLE FUNDS

REQUIREMENTS OF PURCHASE:

Before this loan is completed you will be requested to:

If this box is checked, a Termite Report will be required when the loan offer is made.

TERMITE REPORT REQUIREMENTS

ADDITIONAL TERMS AND CONDITIONS

This acknowledgement will be honored by the Department of Veterans Affairs when funds are available under the provisions of the Veterans' Farm and Home Purchase Act of 1974 to consummate the purchase provided the following requirements are met at the time of purchase.

1. The veteran's credit rating and financial status are substantially the same or better than on the date of this commitment.
2. Title to the property can be transferred to the Department of Veterans Affairs free and clear of unacceptable liens and encumbrances and the Department furnished an acceptable policy of title insurance from an approved title company.
3. Compliance with all applicable provisions of the Military and Veterans Code of the State of ~~California and the Rules and Regulations of the State Department of Veterans Affairs.~~
4. The loan amount may not exceed the amount stated or the total owed when the loan is made, whichever is smaller.

DEPARTMENT OF VETERANS AFFAIRS

DIVISION OF FARM AND HOME PURCHASES



TO ALL APPLICANTS WHO SUBMIT APPLICATIONS AFTER DECEMBER 7, 1979

Limitations imposed by law and the lack of sufficiently available funds give no assurance when a Cal-Vet loan can be made to you. Historically, funds for granting Cal-Vet loans have been obtained through the sale of General Obligation Bonds which have been authorized by the voters of California. Proposition 2 on the June 1980 election ballot provides for voter authorization of a \$750 million Veterans Bond issue which will allow for the continuing funding of new Cal-Vet loan applications. The Department of Veterans Affairs also has the authority to issue Veterans Revenue Bonds. We are proceeding with a planned Revenue Bond sale, but pending federal legislation (HR 5741) could have a detrimental effect upon the ultimate completion of the proposed Revenue Bond sale at an acceptable interest rate.

This letter only acknowledges that:

- A. The Department of Veterans Affairs received your loan application on _____ for a Cal-Vet loan to purchase a home (farm) at:
_____.

Qualification of this property is subject to applicable provisions of the Military and Veterans Code of the State of California and the rules and regulations of the Department of Veterans Affairs.

- B. You are eligible as a California veteran in the _____ preference category. Categories for processing loans during periods when funds are insufficient are ranked as follows:

- 1) Veterans wounded or disabled as a result of service.
- 2) Former POW's, spouses of MIA's and unremarried surviving spouses of those killed in the line of active military duty.
- 3) a. Veterans of Vietnam Period service.
b. Indian veterans who wish to purchase a home or farm on Indian trust land.

- 4) All other qualified veterans who do not qualify under the criteria for the first three preference groups listed above.

HIRE A VETERAN - HIRE EXPERIENCE

- C. Each Cal-Vet loan application received after December 7, 1979, will be processed according to preference category and in each category in order of the date the application is received by the Department.
- D. Applications are not transferable. If you select a property other than the specific property identified above, you must file a new application.

As long as your Cal-Vet loan application has been filed in a District Office of the Division of Farm and Home Purchases before you obtain financing and acquire an interest of record in the property (prior interest of record restriction does not apply to unimproved property), you may obtain financing on this property from another source using any method of financing you choose at terms you can handle for an extended time without disqualifying yourself for a Cal-Vet loan should sufficient funds become available in the future.

If, upon completion of an evaluation of your financial qualifications and an appraisal of your property selection, it is determined that you qualify for a Cal-Vet loan, a Commitment to Purchase Letter will be issued for a specific amount on the property submitted, conditioned on availability of sufficient funds and preference category.

Now or in the future should you decide against using your Cal-Vet loan to purchase the property described above, please let us know.

The conditions in this letter can be changed by future legislation.

For the Department of Veterans Affairs:

Issuing Office:

District Manager

Date _____